

CITY OF FAITH  
FAITH, SOUTH DAKOTA

---

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

# CITY OF FAITH

## TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report .....	1-2
Management's Discussion and Analysis .....	3-11
For Year Ended December 31, 2007:	
<i>Government-Wide Financial Statements:</i>	
Statement of Net Assets .....	12
Statement of Activities .....	13
<i>Fund Financial Statements:</i>	
Balance Sheet – Governmental Funds .....	14
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets .....	15
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds .....	16-17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities .....	18
Balance Sheet – Proprietary Funds .....	19
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds .....	20
Statement of Cash Flows – Proprietary Funds .....	21
For Year Ended December 31, 2006:	
<i>Government-Wide Financial Statements:</i>	
Statement of Net Assets .....	22
Statement of Activities .....	23
<i>Fund Financial Statements:</i>	
Balance Sheet – Governmental Funds .....	24
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets .....	25
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds .....	26-27
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to Government-Wide Statement of Activities .....	28

# CITY OF FAITH

## TABLE OF CONTENTS (CONTINUED)

	<u>PAGE</u>
Balance Sheet – Proprietary Funds. . . . .	29
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds. . . . .	30
Statement of Cash Flows – Proprietary Funds. . . . .	31
Notes to Financial Statements . . . . .	32-47
<i>Required Supplementary Information:</i>	
For Year Ended December 31, 2007:	
Budgetary Comparison Schedule – General Fund . . . . .	48-49
Budgetary Comparison Schedule – Municipal Gross Receipts Tax Fund . . . . .	50
Budgetary Comparison Schedule – Sales Tax Fund. . . . .	51
For Year Ended December 31, 2006:	
Budgetary Comparison Schedule – General Fund . . . . .	52-53
Budgetary Comparison Schedule – Municipal Gross Receipts Tax Fund . . . . .	54
Budgetary Comparison Schedule – Sales Tax Fund . . . . .	55
Notes to Required Supplementary Information. . . . .	56
<i>Other Supplementary Information:</i>	
For Year Ended December 31, 2007:	
Combining Balance Sheet – Nonmajor Governmental Funds. . . . .	57
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds. . . . .	58
For Year Ended December 31, 2006:	
Combining Balance Sheet – Nonmajor Governmental Funds. . . . .	59
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds . . . . .	60
<i>Other Reports:</i>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards . . . . .	61-62
Auditor’s Comments and Closing Conference. . . . .	63-68



# Ketel Thörstenson, LLP

Certified Public Accountants

810 Quincy Street

P.O. Box 3140, Rapid City, South Dakota 57709

Telephone (605) 342-5630 • e-mail: ktllp@ktllp.com

## INDEPENDENT AUDITOR'S REPORT

City Council  
City of Faith  
Faith, South Dakota

We have audited the accompanying financial statements of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **CITY OF FAITH** (the City), Meade County, South Dakota, as of and for the years ended December 31, 2007 and 2006, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As described in Note 1(c), these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2007 and 2006, and the respective changes in financial position and cash flows, where applicable, for the years then ended in conformity with the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 3, 2008, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards, and should be considered in assessing the results of our audits.

The management's discussion and analysis on pages 3 through 11, and the required supplementary budgetary information on pages 48 through 56, are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying combining non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining non-major funds financial statements have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinions, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Ketel Thorstenson, LLP". The signature is written in a cursive, flowing style.

KETEL THORSTENSON, LLP  
Certified Public Accountants

November 3, 2008

## **CITY OF FAITH**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2007 AND 2006**

This section of the City of Faith's (the City) annual financial report presents our discussion and analysis of the City's financial performance during the years ended on December 31, 2007 and 2006. Please read it in conjunction with the City's financial statements, which follow this section.

#### **FINANCIAL HIGHLIGHTS**

The total revenues for the City's general fund increased in 2007 from 2006 by 13.806%. The main reason for the increase in revenues is due to increase in ambulance revenue by \$19,852.

Program revenues of the City's business-type activities increased 5.1% percent to \$1,587,547. The main factor contributing to these results include the Telephone Fund revenue increase of \$78,783. This is due to an increase in NECA Settlements by \$50,000 as the Telephone Company had not previously gotten the past 24 months of SS7 settlements. A \$9,000 increase in DSL Revenue also occurred due to more customers subscribing to DSL service, and finally we received a \$20,000 increase in LECA Settlements due to the LECA Board implementing a new settlement process in 2007 that resulted in LECA paying us.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements (including related notes), and required supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide financial statements.
  - The governmental funds financial statements tell how general government services like public safety were financed in the short-term, as well as what remains for future spending.
  - Proprietary funds financial statements offer short-term and long-term financial information about the activities that the City operates like businesses. The City has six proprietary funds – the Liquor Fund, Water Fund, Electric Fund, Wastewater Fund, Telephone Fund, and Landfill Fund.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The basic financial statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. In addition to the required elements, we have included a section with combining statements that provide details about our non-major governmental funds, each of which are added together and presented in a single column in the basic financial statements.

## **CITY OF FAITH**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2007 AND 2006**

#### **OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

##### **Basis of Accounting**

The City has elected to present its financial statements on a modified cash basis of accounting. This modified cash basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to *when* financial events are recorded, such as the timing for recognizing revenues, expenses, and their related assets and liabilities. Under the City's modified cash basis of accounting, revenues and expenses and related assets are recorded when they result from cash transactions, except for the recording of investments.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues, (such as accounts receivable and revenue for billed or provided services not yet collected) and liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) *are not recorded* in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

##### **Government-Wide Statements**

The two government-wide statements report the City's net assets and how they have changed. Net assets – the difference between the City's assets and liabilities – is one way to measure the City's financial health or position.

- Increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, you need to consider additional non-financial factors such as changes in the City's property tax base and changes in the sales tax revenue base.

The government-wide financial statements of the City are reported in three categories:

- **Governmental Activities**—This category includes most of the City's basic services, such as police, fire, public works, parks department, and general administration. Sales taxes, charges for services, state and federal grants, and interest earnings finance the majority of these activities.
- **Business-Type Activities** – The City charges a fee to customers to help cover the costs of certain services it provides. The City's liquor, water, electric, wastewater, telephone, and landfill are included here.
- **Component Units** – The City does not have any component units.

##### **Fund Financial Statements**

The fund financial statements provide more detailed information about the City's most significant funds – not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes. State law requires some of the funds. The City Council establishes other funds to control and manage money for particular purposes or to show that the City is properly using certain taxes and grants.

## **CITY OF FAITH**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2007 AND 2006**

#### **OVERVIEW OF THE FINANCIAL STATEMENTS (CONCLUDED)**

##### **Fund Financial Statements (Continued)**

The City has two kinds of funds:

- **Governmental Funds** – Most of the City's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets can be readily converted to cash flow in and out and (2) the year-end balances available for spending. Consequently, the governmental funds financial statements provide a detailed short-term view which helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds financial statements, or on the subsequent page, that explains the relationship (or differences) between them.
- **Proprietary Funds** – Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short-term and long-term financial information. The City's proprietary funds are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

#### **FINANCIAL ANALYSIS OF THE CITY AS A WHOLE**

##### **Net Assets**

The City's combined net assets increased by 15 percent between 2005 and 2006-- increasing by \$505,049. The City's combined net assets increased by 8 percent between the 2006 and 2007 -- increasing by \$308,060. (See Table A-1)

The Statement of Net Assets reports all financial and capital resources. This statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The long-term liabilities of the City, consisting of general obligation bonds payable and capital leases, have been reported in this manner on the Statement of Net Assets. The difference between the City's assets and liabilities is its net assets.



CITY OF FAITH

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2007 AND 2006

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Table A-1 Summarized Statement of Net Assets for 2007 and 2006						
	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and Other Assets	\$ 376,789	\$ 291,004	\$ 885,345	\$ 651,295	\$ 1,262,134	\$ 942,299
Capital Assets	3,767,458	3,846,018	224,124	215,770	3,991,582	4,061,788
<b>Total Assets</b>	<b>\$ 4,144,247</b>	<b>\$ 4,137,022</b>	<b>\$ 1,109,469</b>	<b>\$ 867,065</b>	<b>\$ 5,253,716</b>	<b>\$ 5,004,087</b>
Long-Term Debt	\$ 986,878	\$ 1,040,917	\$ -	\$ -	\$ 986,878	\$ 1,040,917
Other Liabilities	2,481	7,182	35,189	34,880	37,670	42,062
<b>Total Liabilities</b>	<b>\$ 989,359</b>	<b>\$ 1,048,099</b>	<b>\$ 35,189</b>	<b>\$ 34,880</b>	<b>\$ 1,024,548</b>	<b>\$ 1,082,979</b>
<i>Net Assets:</i>						
Invested in Capital Assets, Net of Related Debt	\$ 2,780,580	\$ 2,805,101	\$ 224,124	\$ 215,770	3,004,704	\$ 3,020,871
Unrestricted	374,308	283,822	850,156	616,415	1,224,464	900,237
<b>Total Net Assets</b>	<b>\$ 3,154,888</b>	<b>\$ 3,088,923</b>	<b>\$ 1,074,280</b>	<b>\$ 832,185</b>	<b>\$ 4,229,168</b>	<b>\$ 3,921,108</b>
<b>Beginning Net Assets</b>	<b>3,088,923</b>	<b>2,758,180</b>	<b>832,185</b>	<b>657,879</b>	<b>3,921,108</b>	<b>3,416,059</b>
<b>Increase in Net Assets</b>	<b>\$ 65,965</b>	<b>\$ 330,743</b>	<b>\$ 242,095</b>	<b>\$ 174,306</b>	<b>\$ 308,060</b>	<b>\$ 505,049</b>
Percentage of Change in Net Assets	2%	12%	29%	26%	8%	15%

Table A-2 Summarized Statement of Net Assets for 2006 and 2005						
	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and Other Assets	\$ 291,004	\$ 101,825	\$ 651,295	\$ 441,437	\$ 942,299	\$ 543,262
Capital Assets	3,846,018	3,750,622	215,770	250,422	4,061,788	4,001,044
<b>Total Assets</b>	<b>\$ 4,137,022</b>	<b>\$ 3,852,447</b>	<b>\$ 867,065</b>	<b>\$ 691,859</b>	<b>\$ 5,004,087</b>	<b>\$ 4,544,306</b>
Long-Term Debt	\$ 1,040,917	\$ 1,092,511	\$ -	\$ -	\$ 1,040,917	\$ 1,092,511
Other Liabilities	7,182	1,756	34,880	33,980	42,062	35,736
<b>Total Liabilities</b>	<b>\$ 1,048,099</b>	<b>\$ 1,094,267</b>	<b>\$ 34,880</b>	<b>\$ 33,980</b>	<b>\$ 1,082,979</b>	<b>\$ 1,128,247</b>
<i>Net Assets:</i>						
Invested in Capital Assets, Net of Related Debt	\$ 2,805,101	\$ 2,658,111	\$ 215,770	\$ 250,422	3,020,871	\$ 2,908,533
Unrestricted	283,822	100,069	616,415	407,457	900,237	507,526
<b>Total Net Assets</b>	<b>\$ 3,088,923</b>	<b>\$ 2,758,180</b>	<b>\$ 832,185</b>	<b>\$ 657,879</b>	<b>\$ 3,921,108</b>	<b>\$ 3,416,059</b>
<b>Beginning Net Assets</b>	<b>2,758,180</b>	<b>1,850,154</b>	<b>657,879</b>	<b>591,895</b>	<b>3,416,059</b>	<b>2,442,049</b>
<b>Increase in Net Assets</b>	<b>\$ 330,743</b>	<b>\$ 908,026</b>	<b>\$ 174,306</b>	<b>\$ 65,984</b>	<b>\$ 505,049</b>	<b>\$ 974,010</b>
Percentage of Change in Net Assets	12%	49%	26%	11%	15%	40%

**CITY OF FAITH**

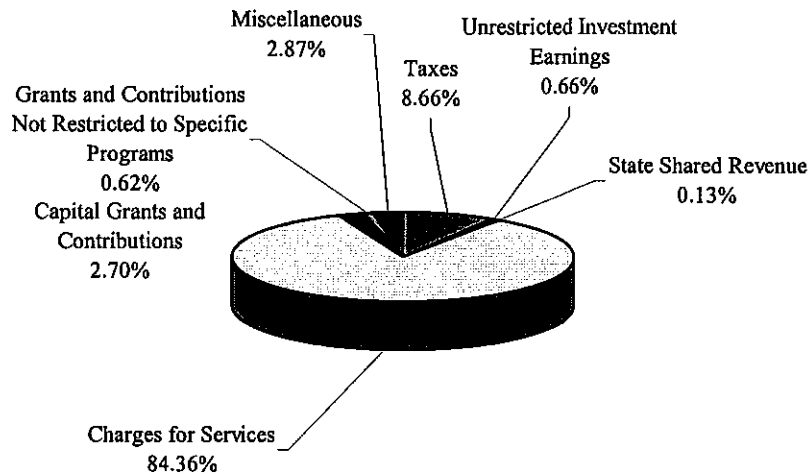
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**DECEMBER 31, 2007 AND 2006**

**FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)**

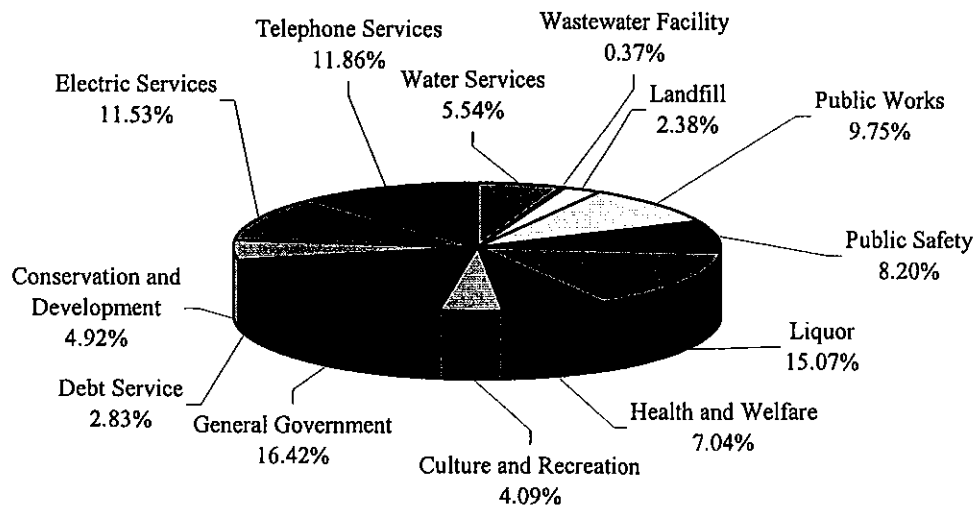
**Changes in Net Assets**

The City's total revenues (excluding special items) totaled \$2,119,249 and \$2,199,099 for 2007 and 2006, respectively. (See Table A-3). The total cost of all programs and services was \$1,811,189 and \$1,694,050 for 2007 and 2006, respectively. The City's expenses cover a range of services, including road maintenance, parks and recreation services, and sewer system services. (See Figure A-3).

**Figure A-1: Sources of Revenue for 2007**



**Figure A-2: Functional Expenses for 2007**



CITY OF FAITH

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2007 AND 2006

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Assets (Continued)

Table A-3 and the narrative that follows consider the operations of the governmental and business-type activities for year ends 2007 and 2006.

Table A-3 Changes in Net Assets						
	Governmental Activities		Business-Type Activities		Total	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
<b>Revenues</b>						
Program Revenues						
Charges for Services	\$ 200,338	\$ 166,124	\$ 1,587,547	\$ 1,511,102	1,787,885	\$ 1,677,226
Capital Grants and Contributions	57,256	277,893	-	-	57,256	277,893
General Revenues						
Taxes	183,571	178,060	-	-	183,571	178,060
Revenue State Sources	2,661	2,725	-	-	2,661	2,725
Grants and Contributions not Program Specific	13,206	4,000	-	-	13,206	4,000
Unrestricted Investment Earnings	2,927	2,483	11,017	8,732	13,944	11,215
Miscellaneous	52,465	47,980	8,261	-	60,726	47,980
<b>Total Revenues</b>	<b>512,424</b>	<b>679,265</b>	<b>1,606,825</b>	<b>1,519,834</b>	<b>2,119,249</b>	<b>2,199,099</b>
<b>Expenses</b>						
General Government	297,439	263,116	-	-	297,439	263,116
Public Safety	148,518	127,460	-	-	148,518	127,460
Public Works	176,628	169,888	-	-	176,628	169,888
Health and Welfare	127,554	115,436	-	-	127,554	115,436
Culture and Recreation	74,136	69,150	-	-	74,136	69,150
Conservation and Development	89,058	43,270	-	-	89,058	43,270
Debt Service	51,276	53,721	-	-	51,276	53,721
Liquor	-	-	273,003	284,300	273,003	284,300
Water Services	-	-	100,263	84,934	100,263	84,934
Electric Services	-	-	208,833	218,792	208,833	218,792
Wastewater Services	-	-	6,706	9,241	6,706	9,241
Landfill Services	-	-	43,035	40,178	43,035	40,178
Telephone Services	-	-	214,740	214,564	214,740	214,564
<b>Total Expenses</b>	<b>964,609</b>	<b>842,041</b>	<b>846,580</b>	<b>852,009</b>	<b>1,811,189</b>	<b>1,694,050</b>
Excess (Deficiency) Before Transfers	(452,185)	(162,776)	760,245	667,825	308,060	505,049
Transfers	518,150	493,519	(518,150)	(493,519)	-	-
<b>Increase in Net Assets</b>	<b>\$ 65,965</b>	<b>\$ 330,743</b>	<b>\$ 242,095</b>	<b>\$ 174,306</b>	<b>\$ 308,060</b>	<b>\$ 505,049</b>
<b>Ending Net Assets</b>	<b>\$ 3,154,888</b>	<b>\$ 3,088,923</b>	<b>\$ 1,074,280</b>	<b>\$ 832,185</b>	<b>\$ 4,229,168</b>	<b>\$ 3,921,108</b>

**CITY OF FAITH**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**DECEMBER 31, 2007 AND 2006**

**FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)**

**Changes in Net Assets (Continued)**

Table A-4 and the narrative that follows consider the operations of the governmental and business-type activities for year ends 2006 and 2005.

Table A-4 Changes in Net Assets						
	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Revenues</b>						
Program Revenues						
Charges for Services	\$ 166,124	\$ 118,928	\$ 1,511,102	\$ 1,424,091	1,677,226	\$ 1,543,019
Capital Grants and Contributions	277,893	719,056	-	-	277,893	719,056
General Revenues						
Taxes	178,060	146,773	-	-	178,060	146,773
Revenue State Sources	2,725	2,532	-	-	2,725	2,532
Grants and Contributions not Program Specific	4,000	30,923	-	-	4,000	30,923
Unrestricted Investment Earnings	2,483	1,290	8,732	4,595	11,215	5,885
Miscellaneous	47,980	61,249	-	-	47,980	61,249
<b>Total Revenues</b>	<b>679,265</b>	<b>1,080,751</b>	<b>1,519,834</b>	<b>1,428,686</b>	<b>2,199,099</b>	<b>2,509,437</b>
<b>Expenses</b>						
General Government	263,116	274,924	-	-	263,116	274,924
Public Safety	127,460	106,232	-	-	127,460	106,232
Public Works	169,888	130,986	-	-	169,888	130,986
Health and Welfare	115,436	109,265	-	-	115,436	109,265
Culture and Recreation	69,150	68,834	-	-	69,150	68,834
Conservation and Development	43,270	13,850	-	-	43,270	13,850
Debt Service	53,721	56,054	-	-	53,721	56,054
Liquor	-	-	284,300	241,444	284,300	241,444
Water Services	-	-	84,934	90,466	84,934	90,466
Electric Services	-	-	218,792	175,108	218,792	175,108
Wastewater Services	-	-	9,241	19,236	9,241	19,236
Landfill Services	-	-	40,178	32,986	40,178	32,986
Telephone Services	-	-	214,564	216,042	214,564	216,042
<b>Total Expenses</b>	<b>842,041</b>	<b>760,145</b>	<b>852,009</b>	<b>775,282</b>	<b>1,694,050</b>	<b>1,535,427</b>
Excess (Deficiency) Before Transfers	(162,776)	320,606	667,825	653,404	505,049	974,010
Transfers	493,519	587,420	(493,519)	(587,420)	-	-
<b>Increase in Net Assets</b>	<b>\$ 330,743</b>	<b>\$ 908,026</b>	<b>\$ 174,306</b>	<b>\$ 65,984</b>	<b>\$ 505,049</b>	<b>\$ 974,010</b>
<b>Ending Net Assets</b>	<b>\$ 3,088,923</b>	<b>\$ 2,758,180</b>	<b>\$ 832,185</b>	<b>\$ 657,879</b>	<b>\$ 3,921,108</b>	<b>\$ 3,416,059</b>

**CITY OF FAITH**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**DECEMBER 31, 2007 AND 2006**

**FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONCLUDED)**

**Governmental Activities**

The City experienced an increase in expenses in 2007 mainly due to salaries and advertising related to preparing for the "Traveling Sue T-Rex Exhibit". Revenues decreased in 2007 due to fewer grants received, which was offset by ambulance revenue increasing.

**Business-Type Activities**

In 2007, revenues of the City's business-type activities increased by approximately 5 percent. The primary reason for the increase in revenues is due to the Telephone Fund earning additional revenue due to NECA and LECA settlements, as well as DSL revenue increasing due to more customers.

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

The financial analysis of the City's funds mirror those highlighted in the analysis of governmental and business-type activities presented above. The City maintains four governmental fund types – General, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds. The City also maintains six business type funds – Liquor, Water, Electric, Wastewater, Telephone, and Landfill Funds.

**BUDGETARY HIGHLIGHTS**

Over the course of the years, the City Council revised the City's budget several times. These amendments fall into two categories:

- Supplemental appropriations for funds not funded during the normal budget session.
- Increases in appropriations to prevent budget overruns.

The general fund budget was increased during the year due to new grant funding received.

**CAPITAL ASSET ADMINISTRATION**

By the end of 2007 and 2006, the City had invested \$3,991,582 and \$4,061,788, respectively, in a broad range of capital assets, including land, buildings, and various machinery and equipment. (See Table A-5). These amounts represent a net increase (decrease) for 2007 and 2006 of (\$70,206) and \$60,744, respectively.

<b>Table A-5</b> <b>Capital Assets</b> <b>(net of depreciation)</b>				
	<b>Governmental Activities</b> <u>2007</u> <u>2006</u>		<b>Business-type Activities</b> <u>2007</u> <u>2006</u>	
Land	\$ 66,033	\$ 66,033	\$ 4,673	\$ 4,673
Construction Work in Progress	-	227,980	-	-
Buildings	2,684,612	2,743,260	39,820	44,244
Improvements Other Than Buildings	800,010	583,145	62,447	64,827
Machinery and Equipment	216,803	225,600	117,184	102,026
<b>Total Capital Assets</b>	<b>\$ 3,767,458</b>	<b>\$ 3,846,018</b>	<b>\$ 224,124</b>	<b>\$ 215,770</b>

**CITY OF FAITH**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)  
DECEMBER 31, 2007 AND 2006**

**LONG-TERM DEBT**

As of December 31, 2007 and 2006, the City had \$986,878 and \$1,040,917, respectively, in General Obligation Bonds and a Capital Acquisition Lease. (See Table A-6 below)

<b>Table A-6</b>			
<b>Outstanding Debt and Obligations</b>			
		<b>Governmental Activities</b>	
		<u>2007</u>	<u>2006</u>
General Obligation Bonds	\$	48,306	\$ 63,266
Capital Acquisition Lease		938,572	977,651
<b>Total Outstanding Debt and Obligations</b>	<b>\$</b>	<b>986,878</b>	<b>\$ 1,040,917</b>

The City has outstanding \$48,306 in General Obligation Bonds. These bonds are secured and paid for by the Sales Tax Fund. These bonds were used to pay off the 1990 General Obligation Bonds. These bonds will be fully paid off in August 2010.

The City also has a capital acquisition lease for the recreation center. This lease will be paid in full by April 2013.

**ECONOMIC FACTORS AND NEXT YEARS BUDGETS AND RATES**

One of the primary sources of revenue to the City is based on taxable retail sales in the community (sales tax). The City has maintained stable sales tax revenue from the prior year and has budgeted for consistent sales tax revenue for the next year.

The City's adopted General Fund budget for next year will increase to \$1,118,247. The largest portion of the increase is due to the "Traveling Sue T-Rex Exhibit" in 2008.

The City's business-type activities expect that the results for 2008 will decrease due to planning to start a deep well water project in 2008.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

The financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City of Faith's Finance Office, P.O. Box 368, Faith SD 57626.

**CITY OF FAITH**

**STATEMENT OF NET ASSETS  
DECEMBER 31, 2007**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>ASSETS:</b>			
Cash and Cash Equivalents	\$ 376,360	\$ 659,356	\$ 1,035,716
Saving Certificates - Investments	-	143,966	143,966
Accounts Receivable, Net	429	312	741
Other Assets	-	81,711	81,711
Capital Assets:			
Land	66,033	4,673	70,706
Other Capital Assets, Net of Depreciation	3,701,425	219,451	3,920,876
<b>TOTAL ASSETS</b>	<b>\$ 4,144,247</b>	<b>\$ 1,109,469</b>	<b>\$ 5,253,716</b>
<b>LIABILITIES:</b>			
Other Current Liabilities	\$ 2,481	\$ 35,189	\$ 37,670
Non-Current Liabilities:			
Due Within One Year	56,603	-	56,603
Due in More Than One Year	930,275	-	930,275
<b>TOTAL LIABILITIES</b>	<b>989,359</b>	<b>35,189</b>	<b>1,024,548</b>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	2,780,580	224,124	3,004,704
Unrestricted	374,308	850,156	1,224,464
<b>TOTAL NET ASSETS</b>	<b>3,154,888</b>	<b>1,074,280</b>	<b>4,229,168</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 4,144,247</b>	<b>\$ 1,109,469</b>	<b>\$ 5,253,716</b>

The accompanying notes are an integral part of this statement.

CITY OF FAITH

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2007

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total
<b>Primary Government:</b>						
<b>Governmental Activities:</b>						
General Government	\$ 297,439	\$ 158	\$ -	\$ (297,281)	\$ -	\$ (297,281)
Public Safety	148,518	965	-	(147,553)	-	(147,553)
Public Works	176,628	56,127	23,514	(96,987)	-	(96,987)
Health and Welfare	127,554	138,276	25,881	36,603	-	36,603
Culture and Recreation	74,136	4,812	-	(69,324)	-	(69,324)
Conservation and Development	89,058	-	7,861	(81,197)	-	(81,197)
Interest on Long-Term Debt	51,276	-	-	(51,276)	-	(51,276)
<b>Total Governmental Activities</b>	<b>964,609</b>	<b>200,338</b>	<b>57,256</b>	<b>(707,015)</b>	<b>-</b>	<b>(707,015)</b>
<b>Business-Type Activities:</b>						
Liquor	273,003	315,707	-	-	42,704	42,704
Water	100,263	86,942	-	-	(13,321)	(13,321)
Electric	208,833	475,534	-	-	266,701	266,701
Wastewater	6,706	28,478	-	-	21,772	21,772
Telephone	214,740	633,923	-	-	419,183	419,183
Landfill	43,035	46,963	-	-	3,928	3,928
<b>Total Business-Type Activities</b>	<b>846,580</b>	<b>1,587,547</b>	<b>-</b>	<b>-</b>	<b>740,967</b>	<b>740,967</b>
<b>Total Primary Government</b>	<b>\$ 1,811,189</b>	<b>\$ 1,787,885</b>	<b>\$ 57,256</b>	<b>(707,015)</b>	<b>740,967</b>	<b>33,952</b>
<b>General Revenues and Transfers:</b>						
Taxes:						
Gross Receipt Taxes				1,493	-	1,493
Sales Taxes				182,078	-	182,078
State Shared Revenues				2,661	-	2,661
Grants and Contributions not Restricted to Specific Programs				13,206	-	13,206
Unrestricted Investment Earnings				2,927	11,017	13,944
Miscellaneous Revenue				52,465	8,261	60,726
Transfers				518,150	(518,150)	-
<b>Total General Revenues and Transfers</b>				<b>772,980</b>	<b>(498,872)</b>	<b>274,108</b>
<b>Change in Net Assets</b>				<b>65,965</b>	<b>242,095</b>	<b>308,060</b>
<b>Net Assets - January 1, 2007</b>				<b>3,088,923</b>	<b>832,185</b>	<b>3,921,108</b>
<b>Net Assets - December 31, 2007</b>				<b>\$ 3,154,888</b>	<b>\$ 1,074,280</b>	<b>\$ 4,229,168</b>

The accompanying notes are an integral part of this statement.



CITY OF FAITH

FINANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2007

	General Fund	Municipal Gross Receipts Fund	Sales Tax Fund	Public Safety Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>						
101 Cash and Cash Equivalents	\$ 114,881	\$ 11,345	\$ 235,451	\$ 4,870	\$ 9,813	\$ 376,360
115 Accounts Receivable, Net	320	-	30	-	79	429
131 Due from Other Funds	18,152	-	-	-	-	18,152
<b>TOTAL ASSETS</b>	<b>\$ 133,353</b>	<b>\$ 11,345</b>	<b>\$ 235,481</b>	<b>\$ 4,870</b>	<b>\$ 9,892</b>	<b>\$ 394,941</b>
<b>LIABILITIES AND FUND BALANCES:</b>						
<b>Liabilities:</b>						
208 Due to Other Funds	\$ -	\$ 18,152	\$ -	\$ -	\$ -	\$ 18,152
216 Other Current Liabilities	2,481	-	-	-	-	2,481
<b>TOTAL LIABILITIES</b>	<b>2,481</b>	<b>18,152</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20,633</b>
<b>Fund Balances:</b>						
262 Unreserved Fund Balances:						
262.02 Designated for Other Purposes:						
Ambulance	20,785	-	-	-	-	20,785
Community Development	30,933	-	-	-	-	30,933
Cemetery	11,047	-	-	-	-	11,047
262.03 Designated for Capital Outlay	50,983	-	-	-	-	50,983
262.09 Undesignated	17,124	(6,807)	235,481	4,870	-	250,668
262.09 Undesignated, Reported in:						
Debt Service Funds	-	-	-	-	591	591
Capital Project Funds	-	-	-	-	9,301	9,301
<b>Total Fund Balances (Deficits)</b>	<b>130,872</b>	<b>(6,807)</b>	<b>235,481</b>	<b>4,870</b>	<b>9,892</b>	<b>374,308</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 133,353</b>	<b>\$ 11,345</b>	<b>\$ 235,481</b>	<b>\$ 4,870</b>	<b>\$ 9,892</b>	<b>\$ 394,941</b>

The accompanying notes are an integral part of this statement.

**CITY OF FAITH**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
DECEMBER 31, 2007**

Total Fund Balances - Governmental Funds	\$	374,308
--	----	---------

Amounts reported for governmental activities in the Statement of  
Net Assets are different because:

Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds.	3,767,458
--	-----------

Long-term liabilities are not due and payable in the current period and therefore are not included in the funds.	(986,878)
---	-----------

<b>Total Net Assets - Governmental Activities</b>	<b>\$</b>	<b>3,154,888</b>
---	-----------	------------------

The accompanying notes are an integral part of this statement.

CITY OF FAITH

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2007

		General Fund	Municipal Gross Receipts Fund	Sales Tax Fund	Public Safety Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenue:</b>							
<i>Taxes:</i>							
313	Sales Taxes	\$ -	\$ 11,345	\$ 170,733	\$ -	\$ -	\$ 182,078
314	Gross Receipts Business Taxes	1,053	-	-	-	-	1,053
315	Amusement Taxes	440	-	-	-	-	440
320	Licenses and Permits	2,510	-	-	-	-	2,510
<i>Intergovernmental Revenue:</i>							
334	State Grant	57,256	-	-	-	-	57,256
335.02	Motor Vehicle Commercial Prorate	1,877	-	-	-	-	1,877
335.03	Liquor Tax Reversion	2,661	-	-	-	-	2,661
335.04	Motor Vehicle Licenses (5%)	7,780	-	-	-	-	7,780
335.06	Fire Insurance Premium Reversion	971	-	-	-	-	971
335.08	Local Government Highway and Bridge Fund	7,068	-	-	-	-	7,068
338.01	County Road Tax (25%)	509	-	-	-	-	509
338.99	Other	3,053	-	-	-	-	3,053
<i>Charges for Goods and Services:</i>							
341	General Government	158	-	-	-	-	158
342	Public Safety	965	-	-	-	-	965
343	Highways and Streets	1,117	-	-	-	-	1,117
346	Culture and Recreation	3,948	-	-	-	864	4,812
347	Ambulance	138,276	-	-	-	-	138,276
348	Cemetery	3,210	-	-	-	-	3,210
349	Other	31,085	-	-	-	-	31,085
<i>Miscellaneous Revenue:</i>							
361	Investment Earnings	1,741	-	1,186	-	-	2,927
362	Rentals	39,799	-	-	-	-	39,799
363	Special Assessments	-	-	-	-	62	62
367	Contributions and Donations From Private Sources	13,206	-	-	-	-	13,206
369	Other	9,551	-	-	-	-	9,551
<b>Total Revenue</b>		<b>328,234</b>	<b>11,345</b>	<b>171,919</b>	<b>-</b>	<b>926</b>	<b>512,424</b>

CITY OF FAITH

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (CONTINUED)  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2007

	General Fund	Municipal Gross Receipts Fund	Sales Tax Fund	Public Safety Fund	Other Governmental Funds	Total Governmental Funds
<b>Expenditures:</b>						
<i>General Government:</i>						
411 Legislative	3,031	-	-	-	-	3,031
412 Executive	17,437	-	-	-	-	17,437
413 Elections	712	-	-	-	-	712
414 Financial Administration	111,020	-	-	-	-	111,020
419 Other	127,227	-	-	1,798	-	129,025
<i>Public Safety:</i>						
421 Police	105,466	-	-	-	-	105,466
422 Fire	22,061	-	-	-	-	22,061
<i>Public Works:</i>						
431 Highway and Streets	97,442	-	-	-	-	97,442
435 Airport	21,939	-	-	-	-	21,939
437 Cemeteries	5,323	-	-	-	-	5,323
<i>Health and Welfare:</i>						
441 Health	5,599	-	-	-	-	5,599
446 Ambulance	110,197	-	-	-	-	110,197
<i>Culture and Recreation:</i>						
451 Recreation	8,815	-	-	-	-	8,815
452 Parks	5,127	-	-	-	-	5,127
454 Swimming Pool	25,552	-	-	-	-	25,552
455 Library	26,862	-	-	-	-	26,862
<i>Conservation and Development:</i>						
465 Economic Development and Assistance	18,783	-	-	-	-	18,783
465.3 Promoting the City	69,275	-	-	-	-	69,275
466 Economic Opportunity	1,000	-	-	-	-	1,000
470 Debt Service	-	-	105,315	-	-	105,315
485 Capital Outlay	50,107	-	-	-	-	50,107
<b>Total Expenditures</b>	<b>832,975</b>	<b>-</b>	<b>105,315</b>	<b>1,798</b>	<b>-</b>	<b>940,088</b>
<b>Other Financing Sources (Uses):</b>						
391.1 Transfers In	517,250	-	-	5,514	-	522,764
511 Transfers Out	-	-	-	-	(4,614)	(4,614)
<b>Total Other Financing Sources (Uses)</b>	<b>517,250</b>	<b>-</b>	<b>-</b>	<b>5,514</b>	<b>(4,614)</b>	<b>518,150</b>
<b>Net Change in Fund Balance</b>	<b>12,509</b>	<b>11,345</b>	<b>66,604</b>	<b>3,716</b>	<b>(3,688)</b>	<b>90,486</b>
<b>Fund Balance (Deficit), January 1, 2007</b>	<b>118,363</b>	<b>(18,152)</b>	<b>168,877</b>	<b>1,154</b>	<b>13,580</b>	<b>283,822</b>
<b>Fund Balance (Deficit), December 31, 2007</b>	<b>\$ 130,872</b>	<b>\$ (6,807)</b>	<b>\$ 235,481</b>	<b>\$ 4,870</b>	<b>\$ 9,892</b>	<b>\$ 374,308</b>

The accompanying notes are an integral part of this statement.

**CITY OF FAITH**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2007**

Net Change in Fund Balances - Government Funds	\$	90,486
--	----	--------

Amounts reported for governmental activities in the Statement of  
Activities are different because:

Government funds report capital outlays as expenditures. However,  
in the Statement of Activities the cost of the assets is allocated over  
their estimated useful lives and reported as depreciation expense.

Capital Asset Purchases Capitalized	50,107
Depreciation Expense	128,667
	<u>(78,560)</u>

Repayment of bond principal is an expenditure in the governmental  
funds, but the repayment reduces long-term liabilities in the Statement  
of Net Assets.

	54,039
--	--------

<u>Change in Net Assets - Governmental Activities</u>	<u>\$</u>	<u>65,965</u>
---	-----------	---------------

The accompanying notes are an integral part of this statement.

**CITY OF FAITH**

**BALANCE SHEET  
PROPRIETARY FUNDS  
DECEMBER 31, 2007**

	<b>Liquor Fund</b>	<b>Water Fund</b>	<b>Electric Fund</b>	<b>Wastewater Fund</b>
<b>ASSETS:</b>				
<b>Current Assets:</b>				
101 Cash and Cash Equivalents	\$ 12,478	\$ 47,039	\$ 80,125	\$ 64,878
105.2 Savings Certificates - Investments	-	23,110	59,419	61,437
115 Accounts Receivable	312	-	-	-
142 Inventory of Supplies Purchased for Resale	19,653	-	-	-
<b>Total Current Assets</b>	<b>32,443</b>	<b>70,149</b>	<b>139,544</b>	<b>126,315</b>
<b>Noncurrent Assets:</b>				
151 Joint Venture Investment	-	-	-	-
<b>Capital Assets:</b>				
160 Land	-	375	-	1,318
162 Buildings	-	146,000	-	-
164 Improvements Other Than Buildings	-	61,226	49,700	31,100
166 Machinery and Equipment	16,758	69,725	34,521	6,700
Less: Accumulated Depreciation	(5,756)	(172,491)	(46,603)	(30,186)
<b>Total Noncurrent Assets</b>	<b>11,002</b>	<b>104,835</b>	<b>37,618</b>	<b>8,932</b>
<b>TOTAL ASSETS</b>	<b>\$ 43,445</b>	<b>\$ 174,984</b>	<b>\$ 177,162</b>	<b>\$ 135,247</b>
<b>LIABILITIES:</b>				
<b>Current Liabilities:</b>				
216 Other Current Liabilities	\$ 1,665	\$ 23	\$ 2,279	\$ -
220 Customer Deposits	-	7,808	8,398	-
<b>Total Current Liabilities</b>	<b>1,665</b>	<b>7,831</b>	<b>10,677</b>	<b>-</b>
<b>NET ASSETS:</b>				
253.1 Invested in Capital Assets	11,002	104,835	37,618	8,932
253.9 Unrestricted Net Assets	30,778	62,318	128,867	126,315
<b>Total Net Assets</b>	<b>41,780</b>	<b>167,153</b>	<b>166,485</b>	<b>135,247</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 43,445</b>	<b>\$ 174,984</b>	<b>\$ 177,162</b>	<b>\$ 135,247</b>

The accompanying notes are an integral part of this statement.

Telephone Fund	Landfill Fund	Totals
\$ 415,929	\$ 38,907	\$ 659,356
-	-	143,966
-	-	312
-	-	19,653
<u>415,929</u>	<u>38,907</u>	<u>823,287</u>

62,058	-	62,058
-	2,980	4,673
-	-	146,000
-	-	142,026
345,287	7,071	480,062
(289,384)	(4,217)	(548,637)
<u>117,961</u>	<u>5,834</u>	<u>286,182</u>

<u>\$ 533,890</u>	<u>\$ 44,741</u>	<u>\$ 1,109,469</u>
-------------------	------------------	---------------------

\$ 1,259	\$ 267	\$ 5,493
13,490	-	29,696
<u>14,749</u>	<u>267</u>	<u>35,189</u>

55,903	5,834	224,124
463,238	38,640	850,156
<u>519,141</u>	<u>44,474</u>	<u>1,074,280</u>

<u>\$ 533,890</u>	<u>\$ 44,741</u>	<u>\$ 1,109,469</u>
-------------------	------------------	---------------------

**CITY OF FAITH**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Liquor Fund	Water Fund	Electric Fund	Wastewater Fund
<b>Operating Revenue:</b>				
380 Charges for Goods and Services	\$ 259,722	\$ 86,942	\$ 475,534	\$ 28,478
380.5 Lottery Sales	39,938	-	-	-
369 Miscellaneous	16,047	-	-	-
<b>Total Operating Revenue</b>	<b>315,707</b>	<b>86,942</b>	<b>475,534</b>	<b>28,478</b>
<b>Operating Expenses:</b>				
410 Personal Services	51,708	8,300	22,542	1,051
420 Other Current Expense	32,750	17,032	21,673	5,493
426.2 Materials (Cost of Goods Sold)	187,394	63,045	160,758	-
457 Depreciation	1,151	11,886	3,860	162
<b>Total Operating Expenses</b>	<b>273,003</b>	<b>100,263</b>	<b>208,833</b>	<b>6,706</b>
<b>Operating Income (Loss)</b>	<b>42,704</b>	<b>(13,321)</b>	<b>266,701</b>	<b>21,772</b>
<b>Nonoperating Revenue:</b>				
361 Investment Earnings	34	910	3,646	2,502
360 Proceeds from Sale of Assets	-	-	7,046	-
<b>Total Nonoperating Revenue</b>	<b>34</b>	<b>910</b>	<b>10,692</b>	<b>2,502</b>
<b>Income (Loss) Before Transfers</b>	<b>42,738</b>	<b>(12,411)</b>	<b>277,393</b>	<b>24,274</b>
391.1 Transfers In	-	-	6,000	-
511 Transfers Out	(39,135)	-	(227,930)	-
<b>Net Transfers Out</b>	<b>(39,135)</b>	<b>-</b>	<b>(221,930)</b>	<b>-</b>
<b>Change in Net Assets</b>	<b>3,603</b>	<b>(12,411)</b>	<b>55,463</b>	<b>24,274</b>
Net Assets - January 1, 2007	38,177	179,564	111,022	110,973
<b>NET ASSETS - DECEMBER 31, 2007</b>	<b>\$ 41,780</b>	<b>\$ 167,153</b>	<b>\$ 166,485</b>	<b>\$ 135,247</b>

The accompanying notes are an integral part of this statement.



Telephone Fund	Landfill Fund	Totals
\$ 633,923	\$ 46,963	\$ 1,531,562
-	-	39,938
-	-	16,047
<b>633,923</b>	<b>46,963</b>	<b>1,587,547</b>
32,379	8,252	124,232
174,320	34,237	285,505
-	-	411,197
8,041	546	25,646
<b>214,740</b>	<b>43,035</b>	<b>846,580</b>
<b>419,183</b>	<b>3,928</b>	<b>740,967</b>
3,925	-	11,017
1,215	-	8,261
<b>5,140</b>	<b>-</b>	<b>19,278</b>
<b>424,323</b>	<b>3,928</b>	<b>760,245</b>
11,000	-	17,000
(268,085)	-	(535,150)
<b>(257,085)</b>	<b>-</b>	<b>(518,150)</b>
<b>167,238</b>	<b>3,928</b>	<b>242,095</b>
351,903	40,546	832,185
<b>\$ 519,141</b>	<b>\$ 44,474</b>	<b>\$ 1,074,280</b>

CITY OF FAITH

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2007

	Liquor Fund	Water Fund	Electric Fund	Wastewater Fund
<b>Cash Flows from Operating Activities</b>				
Receipts from Customers	\$ 315,395	\$ 87,025	\$ 475,567	\$ 28,478
Payments to Suppliers	(216,837)	(80,077)	(182,431)	(5,493)
Payments to Employees	(51,032)	(8,341)	(22,499)	(1,051)
<b>Net Cash Provided by (Used In) Operating Activities</b>	<b>47,526</b>	<b>(1,393)</b>	<b>270,637</b>	<b>21,934</b>
<b>Cash Flows from Noncapital Financing Activities</b>				
Transfers to Other Funds	(39,135)	-	(221,930)	-
<b>Net Cash Flows Used in Noncapital Financing Activities</b>	<b>(39,135)</b>	<b>-</b>	<b>(221,930)</b>	<b>-</b>
<b>Cash Flows from Capital and Related Financing Activities</b>				
Purchase of Capital Assets	-	-	(17,000)	-
Proceeds from Sale of Assets	-	-	7,046	-
<b>Net Cash Flows Used In Capital and Related Financing Activities</b>	<b>-</b>	<b>-</b>	<b>(9,954)</b>	<b>-</b>
<b>Cash Flows from Investing Activities</b>				
Interest Earnings	34	910	3,646	2,502
<b>Net Increase (Decrease) in Cash and Investments</b>	<b>8,425</b>	<b>(483)</b>	<b>42,399</b>	<b>24,436</b>
<b>Cash and Investments, January 1, 2007</b>	<b>4,053</b>	<b>70,632</b>	<b>97,145</b>	<b>101,879</b>
<b>Cash and Investments, December 31, 2007</b>	<b>12,478</b>	<b>70,149</b>	<b>139,544</b>	<b>126,315</b>
<b>Cash Flows From Operating Activities:</b>				
Operating Income (Loss)	42,704	(13,321)	266,701	21,772
Adjustments to Reconcile Operating Income (Loss) to				
Net Cash Flows Provided by (Used In) Operating Activities:				
Depreciation Expense	1,151	11,886	3,860	162
Change in Assets and Liabilities:				
Accounts Receivable	(312)	-	-	-
Inventories	3,307	-	-	-
Customer Deposits	-	83	33	-
Other Current Liabilities	676	(41)	43	-
<b>Net Cash Flows Provided by (Used In) Operating Activities</b>	<b>\$ 47,526</b>	<b>\$ (1,393)</b>	<b>\$ 270,637</b>	<b>\$ 21,934</b>

The accompanying notes are an integral part of this statement.

Telephone Fund	Landfill Fund	Totals
\$ 633,428	\$ 46,963	\$ 1,586,856
(174,320)	(34,237)	(693,395)
(32,425)	(8,196)	(123,544)
<u>426,683</u>	<u>4,530</u>	<u>769,917</u>
(257,085)	-	(518,150)
<u>(257,085)</u>	<u>-</u>	<u>(518,150)</u>
(17,000)	-	(34,000)
1,215	-	8,261
<u>(15,785)</u>	<u>-</u>	<u>(25,739)</u>
3,925	-	11,017
<u>157,738</u>	<u>4,530</u>	<u>237,045</u>
258,191	34,377	566,277
<u>415,929</u>	<u>38,907</u>	<u>803,322</u>
419,183	3,928	740,967
8,041	546	25,646
-	-	(312)
-	-	3,307
(495)	-	(379)
(46)	56	688
<u>\$ 426,683</u>	<u>\$ 4,530</u>	<u>\$ 769,917</u>

**CITY OF FAITH**

**STATEMENT OF NET ASSETS  
DECEMBER 31, 2006**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>ASSETS:</b>			
Cash and Cash Equivalents:			
Cash	\$ 290,895	\$ 427,500	\$ 718,395
Investments	-	138,777	138,777
Accounts Receivable, Net	109	-	109
Other Assets	-	85,018	85,018
Capital Assets:			
Land and Construction Work in Progress	294,013	4,673	298,686
Other Capital Assets, Net of Depreciation	3,552,005	211,097	3,763,102
<b>TOTAL ASSETS</b>	<b>\$ 4,137,022</b>	<b>\$ 867,065</b>	<b>\$ 5,004,087</b>
<b>LIABILITIES:</b>			
Other Current Liabilities	\$ 7,182	\$ 34,880	\$ 42,062
Non-Current Liabilities:			
Due Within One Year	54,039	-	54,039
Due in More Than One Year	986,878	-	986,878
<b>TOTAL LIABILITIES</b>	<b>1,048,099</b>	<b>34,880</b>	<b>1,082,979</b>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	2,805,101	215,770	3,020,871
Unrestricted	283,822	616,415	900,237
<b>TOTAL NET ASSETS</b>	<b>3,088,923</b>	<b>832,185</b>	<b>3,921,108</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 4,137,022</b>	<b>\$ 867,065</b>	<b>\$ 5,004,087</b>

The accompanying notes are an integral part of this statement.

CITY OF FAITH

STATEMENT OF ACTIVITIES  
OR THE YEAR ENDED DECEMBER 31, 2006

Functions/Programs	Program ---Revenues---			Net (Expense) Revenue and -----Changes in Net Assets-----		
	Expenses	Charges for Services	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total
<b>Primary Government:</b>						
<b>Governmental Activities:</b>						
General Government	\$ 263,116	\$ 56	\$ -	\$ (263,060)	\$ -	\$ (263,060)
Public Safety	127,460	795	212,395	85,730	-	85,730
Public Works	169,888	43,083	57,872	(68,933)	-	(68,933)
Health and Welfare	115,436	118,424	3,926	6,914	-	6,914
Culture and Recreation	69,150	3,766	3,700	(61,684)	-	(61,684)
Conservation and Development	43,270	-	-	(43,270)	-	(43,270)
Interest on Long-Term Debt	53,721	-	-	(53,721)	-	(53,721)
<b>Total Governmental Activities</b>	<b>842,041</b>	<b>166,124</b>	<b>277,893</b>	<b>(398,024)</b>	<b>-</b>	<b>(398,024)</b>
<b>Business-Type Activities:</b>						
Liquor	284,300	318,820	-	-	34,520	34,520
Water	84,934	91,754	-	-	6,820	6,820
Electric	218,792	468,923	-	-	250,131	250,131
Wastewater	9,241	28,520	-	-	19,279	19,279
Telephone	214,564	555,140	-	-	340,576	340,576
Landfill	40,178	47,945	-	-	7,767	7,767
<b>Total Business-Type Activities</b>	<b>852,009</b>	<b>1,511,102</b>	<b>-</b>	<b>-</b>	<b>659,093</b>	<b>659,093</b>
<b>Total Primary Government</b>	<b>\$ 1,694,050</b>	<b>\$ 1,677,226</b>	<b>\$ 277,893</b>	<b>(398,024)</b>	<b>659,093</b>	<b>261,069</b>
<b>General Revenues and Transfers:</b>						
<b>Taxes:</b>						
Gross Receipt Taxes				745	-	745
Sales Taxes				177,315	-	177,315
State Shared Revenues				2,725	-	2,725
Grants and Contributions not Restricted to Specific Programs				4,000	-	4,000
Unrestricted Investment Earnings				2,483	8,732	11,215
Miscellaneous Revenue				47,980	-	47,980
Transfers				493,519	(493,519)	-
<b>Total General Revenues and Transfers</b>				<b>728,767</b>	<b>(484,787)</b>	<b>243,980</b>
<b>Change in Net Assets</b>				<b>330,743</b>	<b>174,306</b>	<b>505,049</b>
<b>Net Assets - January 1, 2006</b>				<b>2,758,180</b>	<b>657,879</b>	<b>3,416,059</b>
<b>Net Assets - December 31, 2006</b>				<b>\$ 3,088,923</b>	<b>\$ 832,185</b>	<b>\$ 3,921,108</b>

The accompanying notes are an integral part of this statement.

CITY OF FAITH

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2006**

		General Fund	Municipal Gross Receipts Fund	Sales Tax Fund	Public Safety Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>							
101	Cash and Cash Equivalents	\$ 102,523	\$ -	\$ 168,847	\$ 6,024	\$ 13,501	\$ 290,895
115	Accounts Receivable, Net	-	-	30	-	79	109
131	Due from Other Funds	18,152	-	-	-	-	18,152
<b>TOTAL ASSETS</b>		<b>\$ 120,675</b>	<b>\$ -</b>	<b>\$ 168,877</b>	<b>\$ 6,024</b>	<b>\$ 13,580</b>	<b>\$ 309,156</b>
<b>LIABILITIES AND FUND BALANCES:</b>							
<b>Liabilities:</b>							
202	Accounts Payable	\$ -	\$ -	\$ -	\$ 4,870	\$ -	\$ 4,870
208	Due to Other Funds	-	18,152	-	-	-	18,152
216	Other Current Liabilities	2,312	-	-	-	-	2,312
<b>TOTAL LIABILITIES</b>		<b>2,312</b>	<b>18,152</b>	<b>-</b>	<b>4,870</b>	<b>-</b>	<b>25,334</b>
<b>Fund Balances:</b>							
262	Unreserved Fund Balances:						
262.02	Designated for Other Purposes:						
	Ambulance	13,324	-	-	-	-	13,324
	Cemetery	10,253	-	-	-	-	10,253
	Community Development	22,821	-	-	-	-	22,821
262.03	Designated for Capital Outlay	73,508	-	-	-	-	73,508
262.09	Undesignated	(1,543)	(18,152)	168,877	1,154	-	150,336
262.09	Undesignated, Reported in:						
	Debt Service Funds	-	-	-	-	591	591
	Capital Project Funds	-	-	-	-	12,989	12,989
<b>Total Fund Balances (Deficits)</b>		<b>118,363</b>	<b>(18,152)</b>	<b>168,877</b>	<b>1,154</b>	<b>13,580</b>	<b>283,822</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>							
		<b>\$ 120,675</b>	<b>\$ -</b>	<b>\$ 168,877</b>	<b>\$ 6,024</b>	<b>\$ 13,580</b>	<b>\$ 309,156</b>

The accompanying notes are an integral part of this statement.

**CITY OF FAITH**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
DECEMBER 31, 2006**

Total Fund Balances - Governmental Funds	\$ 283,822
--	------------

Amounts reported for governmental activities in the Statement of  
Net Assets are different because:

Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds.	3,846,018
--	-----------

Long-term liabilities are not due and payable in the current period and therefore are not included in the funds.	(1,040,917)
---	-------------

Total Net Assets - Governmental Activities	<u>\$ 3,088,923</u>
--	---------------------

The accompanying notes are an integral part of this statement.

CITY OF FAITH

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2006

	General Fund	Municipal Gross Receipts Fund	Sales Tax Fund	Public Safety Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenue:</b>						
<i>Taxes:</i>						
313 Sales Taxes	\$ -	\$ 11,172	\$ 166,143	\$ -	\$ -	\$ 177,315
314 Gross Receipts Business Taxes	589	-	-	-	-	589
315 Amusement Taxes	156	-	-	-	-	156
320 Licenses and Permits	2,685	-	-	-	-	2,685
<i>Intergovernmental Revenue:</i>						
331 Federal Grant	9,727	-	-	212,395	-	222,122
334 State Grant	55,771	-	-	-	-	55,771
335.02 Motor Vehicle Commercial Prorate	1,822	-	-	-	-	1,822
335.03 Liquor Tax Reversion	2,725	-	-	-	-	2,725
335.04 Motor Vehicle Licenses (5%)	7,317	-	-	-	-	7,317
335.06 Fire Insurance Premium Reversion	1,176	-	-	-	-	1,176
335.08 Local Government Highway and Bridge Fund	6,738	-	-	-	-	6,738
338.01 County Road Tax (25%)	527	-	-	-	-	527
338.02 County HBR Tax (25%)	928	-	-	-	-	928
338.99 Other	2,597	-	-	-	-	2,597
<i>Charges for Goods and Services:</i>						
341 General Government	56	-	-	-	-	56
342 Public Safety	795	-	-	-	-	795
343 Highways and Streets	60	-	-	-	-	60
346 Culture and Recreation	3,766	-	-	-	-	3,766
347 Ambulance	118,424	-	-	-	-	118,424
348 Cemetery	1,350	-	-	-	-	1,350
349 Other	20,480	-	-	-	-	20,480
<i>Miscellaneous Revenue:</i>						
361 Investment Earnings	1,421	-	1,062	-	-	2,483
362 Rentals	39,909	-	-	-	-	39,909
363 Special Assessments	-	-	-	-	80	80
367 Contributions and Donations From Private Sources	4,000	-	-	-	-	4,000
369 Other	5,394	-	-	-	-	5,394
<b>Total Revenue</b>	<b>288,413</b>	<b>11,172</b>	<b>167,205</b>	<b>212,395</b>	<b>80</b>	<b>679,265</b>



CITY OF FAITH

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (CONTINUED)  
 GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2006

	General Fund	Municipal Gross Receipts Fund	Sales Tax Fund	Public Safety Fund	Other Governmental Funds	Total Governmental Funds
<b>Expenditures:</b>						
<i>General Government:</i>						
411 Legislative	2,745	-	-	-	-	2,745
412 Executive	17,707	-	-	-	-	17,707
413 Elections	189	-	-	-	-	189
414 Financial Administration	113,111	-	-	-	-	113,111
419 Other	140,530	-	-	-	-	140,530
<i>Public Safety:</i>						
421 Police	97,458	-	-	-	-	97,458
422 Fire	17,041	-	-	-	-	17,041
<i>Public Works:</i>						
431 Highway and Streets	94,804	-	-	-	-	94,804
435 Airport	24,741	-	-	-	-	24,741
437 Cemeteries	3,454	-	-	-	-	3,454
<i>Health and Welfare:</i>						
441 Health	5,583	-	-	-	-	5,583
446 Ambulance	100,431	-	-	-	-	100,431
<i>Culture and Recreation:</i>						
451 Recreation	8,951	-	-	-	-	8,951
Parks	3,272	-	-	-	-	3,272
454 Swimming Pool	24,363	-	-	-	-	24,363
455 Library	25,900	-	-	-	-	25,900
<i>Conservation and Development:</i>						
465 Economic Development and Assistance	42,270	-	-	-	-	42,270
466 Economic Opportunity	1,000	-	-	-	-	1,000
470 Debt Service	-	-	105,315	-	-	105,315
485 Capital Outlay	123,433	-	-	77,967	5,600	207,000
<b>Total Expenditures</b>	<b>846,983</b>	<b>-</b>	<b>105,315</b>	<b>77,967</b>	<b>5,600</b>	<b>1,035,865</b>
<b>Other Financing Sources (Uses):</b>						
391.1 Transfers In	517,064	-	-	55,000	-	572,064
511 Transfers Out	-	-	-	(78,545)	-	(78,545)
391.4 Compensation for Loss or Damage To Capital Assets	46,834	-	-	-	-	46,834
<b>Total Other Financing Sources</b>	<b>563,898</b>	<b>-</b>	<b>-</b>	<b>(23,545)</b>	<b>-</b>	<b>540,353</b>
<b>Net Change in Fund Balance</b>	<b>5,328</b>	<b>11,172</b>	<b>61,890</b>	<b>110,883</b>	<b>(5,520)</b>	<b>183,753</b>
<b>Fund Balance (Deficit), January 1, 2006</b>	<b>113,035</b>	<b>(29,324)</b>	<b>106,987</b>	<b>(109,729)</b>	<b>19,100</b>	<b>100,069</b>
<b>Fund Balance (Deficit), December 31, 2006</b>	<b>\$ 118,363</b>	<b>\$ (18,152)</b>	<b>\$ 168,877</b>	<b>\$ 1,154</b>	<b>\$ 13,580</b>	<b>\$ 283,822</b>

accompanying notes are an integral part of this statement.

**CITY OF FAITH**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2006**

Net Change in Fund Balances - Government Funds	\$ 183,753
--	------------

Amounts reported for governmental activities in the Statement of  
Activities are different because:

Government funds report capital outlays as expenditures. However,  
in the Statement of Activities the cost of the assets is allocated over  
their estimated useful lives and reported as depreciation expense.

Capital Asset Purchases Capitalized	207,000
Depreciation Expense	(111,604)
	<u>95,396</u>

Repayment of bond principal is an expenditure in the governmental  
funds, but the repayment reduces long-term liabilities in the Statement  
of Net Assets.

51,594

Change in Net Assets - Governmental Activities

<u>\$ 330,743</u>
-------------------

The accompanying notes are an integral part of this statement.

## CITY OF FAITH

BALANCE SHEET  
PROPRIETARY FUNDS  
DECEMBER 31, 2006

	Liquor Fund	Water Fund	Electric Fund	Wastewater Fund
<b>ASSETS:</b>				
<b>Current Assets:</b>				
101 Cash and Cash Equivalents	\$ 4,053	\$ 48,272	\$ 39,963	\$ 42,644
151 Savings Certificates - Investments	-	22,360	57,182	59,235
142 Inventory of Supplies Purchased for Resale	22,960	-	-	-
<b>Total Current Assets</b>	<b>27,013</b>	<b>70,632</b>	<b>97,145</b>	<b>101,879</b>
<b>Noncurrent Assets:</b>				
151 Joint Venture Investment	-	-	-	-
<b>Capital Assets:</b>				
160 Land	-	375	-	1,318
162 Buildings	-	146,000	-	-
164 Improvements Other Than Buildings	-	61,226	49,700	31,100
166 Machinery and Equipment	16,758	69,725	17,521	6,700
Less: Accumulated Depreciation	(4,605)	(160,605)	(42,743)	(30,024)
<b>Total Noncurrent Assets</b>	<b>12,153</b>	<b>116,721</b>	<b>24,478</b>	<b>9,094</b>
<b>TOTAL ASSETS</b>	<b>\$ 39,166</b>	<b>\$ 187,353</b>	<b>\$ 121,623</b>	<b>\$ 110,973</b>
<b>LIABILITIES:</b>				
<b>Current Liabilities:</b>				
216 Other Current Liabilities	\$ 989	\$ 64	\$ 2,236	\$ -
220 Customer Deposits	-	7,725	8,365	-
<b>Total Current Liabilities</b>	<b>989</b>	<b>7,789</b>	<b>10,601</b>	<b>-</b>
<b>NET ASSETS:</b>				
253.1 Invested in Capital Assets	12,153	116,721	24,478	9,094
253.9 Unrestricted Net Assets	26,024	62,843	86,544	101,879
<b>Total Net Assets</b>	<b>38,177</b>	<b>179,564</b>	<b>111,022</b>	<b>110,973</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 39,166</b>	<b>\$ 187,353</b>	<b>\$ 121,623</b>	<b>\$ 110,973</b>

The accompanying notes are an integral part of this statement.

Telephone Fund	Landfill Fund	Totals
\$ 258,191	\$ 34,377	\$ 427,500
-	-	138,777
-	-	22,960
<u>258,191</u>	<u>34,377</u>	<u>589,237</u>

62,058	-	62,058
-	2,980	4,673
-	-	146,000
-	-	142,026
328,287	7,071	446,062
(281,343)	(3,671)	(522,991)
<u>109,002</u>	<u>6,380</u>	<u>277,828</u>
<u>\$ 367,193</u>	<u>\$ 40,757</u>	<u>\$ 867,065</u>

\$ 1,305	\$ 211	\$ 4,805
13,985	-	30,075
<u>15,290</u>	<u>211</u>	<u>34,880</u>

46,944	6,380	215,770
304,959	34,166	616,415
<u>351,903</u>	<u>40,546</u>	<u>832,185</u>
<u>\$ 367,193</u>	<u>\$ 40,757</u>	<u>\$ 867,065</u>

CITY OF FAITH

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2006

	Liquor Fund	Water Fund	Electric Fund	Wastewater Fund
<b>Operating Revenue:</b>				
380 Charges for Goods and Services	\$ 248,486	\$ 86,954	\$ 468,923	\$ 28,520
380.5 Lottery Sales	55,011	-	-	-
369 Miscellaneous	15,323	4,800	-	-
<b>Total Operating Revenue</b>	<b>318,820</b>	<b>91,754</b>	<b>468,923</b>	<b>28,520</b>
<b>Operating Expenses:</b>				
410 Personal Services	44,791	4,542	26,549	444
420 Other Current Expense	28,175	6,187	66,314	8,635
426.2 Materials (Cost of Goods Sold)	211,825	65,602	148,337	-
457 Depreciation	759	11,887	2,586	162
<b>Total Operating Expenses</b>	<b>285,550</b>	<b>88,218</b>	<b>243,786</b>	<b>9,241</b>
<b>Operating Income</b>	<b>33,270</b>	<b>3,536</b>	<b>225,137</b>	<b>19,279</b>
<b>Nonoperating Revenue:</b>				
361 Investment Earnings	32	1,147	2,688	2,432
391.4 Compensation for Loss of Damage To Capital Assets	1,250	3,284	24,994	-
<b>Total Nonoperating Revenue</b>	<b>1,282</b>	<b>4,431</b>	<b>27,682</b>	<b>2,432</b>
<b>Income Before Transfers</b>	<b>34,552</b>	<b>7,967</b>	<b>252,819</b>	<b>21,711</b>
391.1 Transfers In	25,500	-	-	-
511 Transfers Out	(58,469)	-	(232,750)	-
<b>Net Transfers Out</b>	<b>(32,969)</b>	<b>-</b>	<b>(232,750)</b>	<b>-</b>
<b>Change in Net Assets</b>	<b>1,583</b>	<b>7,967</b>	<b>20,069</b>	<b>21,711</b>
Net Assets - January 1, 2006	36,594	171,597	90,953	89,262
<b>NET ASSETS - DECEMBER 31, 2006</b>	<b>\$ 38,177</b>	<b>\$ 179,564</b>	<b>\$ 111,022</b>	<b>\$ 110,973</b>

The accompanying notes are an integral part of this statement.

Telephone Fund	Landfill Fund	Totals
\$ 555,140	\$ 47,945	\$ 1,435,968
-	-	55,011
-	-	20,123
<b>555,140</b>	<b>47,945</b>	<b>1,511,102</b>
27,235	6,633	110,194
155,780	32,999	298,090
-	-	425,764
31,624	546	47,564
<b>214,639</b>	<b>40,178</b>	<b>881,612</b>
<b>340,501</b>	<b>7,767</b>	<b>629,490</b>
2,433	-	8,732
75	-	29,603
<b>2,508</b>	<b>-</b>	<b>38,335</b>
<b>343,009</b>	<b>7,767</b>	<b>667,825</b>
26,000	-	51,500
(253,800)	-	(545,019)
<b>(227,800)</b>	<b>-</b>	<b>(493,519)</b>
<b>115,209</b>	<b>7,767</b>	<b>174,306</b>
236,694	32,779	657,879
<b>\$ 351,903</b>	<b>\$ 40,546</b>	<b>\$ 832,185</b>

**CITY OF FAITH**

**STATEMENT OF CASH FLOWS**

**PROPRIETARY FUNDS**

**FOR THE YEAR ENDED DECEMBER 31, 2006**

	Liquor Fund	Water Fund	Electric Fund	Wastewater Fund
<b>Cash Flows from Operating Activities</b>				
Receipts from Customers	\$ 318,820	\$ 92,034	\$ 469,202	\$ 28,520
Payments to Suppliers	(247,832)	(71,789)	(214,651)	(8,635)
Payments to Employees	(44,722)	(4,500)	(26,309)	(444)
<b>Net Cash Flows Provided by Operating Activities</b>	<b>26,266</b>	<b>15,745</b>	<b>228,242</b>	<b>19,441</b>
<b>Cash Flows From Noncapital Financing Activities</b>				
Transfers to Other Funds	(32,969)	-	(232,750)	-
Operating Subsidies	-	-	-	49,053
<b>Net Cash Flows Provided by (Used in) Noncapital Financing Activities</b>	<b>(32,969)</b>	<b>-</b>	<b>(232,750)</b>	<b>49,053</b>
<b>Cash Flows from Capital and Related Financing Activities</b>				
Purchase of Capital Assets	(12,912)	-	-	-
Other Receipts	1,250	3,284	24,994	-
<b>Net Cash Flows Provided by (Used in) Capital and Related Financing Activities</b>	<b>(11,662)</b>	<b>3,284</b>	<b>24,994</b>	<b>-</b>
<b>Cash Flows From Investing Activities</b>				
Interest Earnings	32	1,147	2,688	2,432
<b>Increase (Decrease) in Cash and Investments</b>	<b>(18,333)</b>	<b>20,176</b>	<b>23,174</b>	<b>70,926</b>
<b>Cash and Investments, January 1, 2006</b>	<b>22,386</b>	<b>50,456</b>	<b>73,971</b>	<b>30,953</b>
<b>Cash and Investments, December 31, 2006</b>	<b>4,053</b>	<b>70,632</b>	<b>97,145</b>	<b>101,879</b>
<b>Cash Flows From Operating Activities:</b>				
Operating Income	33,270	3,536	225,137	19,279
Adjustments to Reconcile Operating Income to				
Net Cash Provided by Operating Activities:				
Depreciation Expense	759	11,887	2,586	162
Change in Assets and Liabilities:				
Inventories	(7,832)	-	-	-
Customer Deposits	-	280	279	-
Other Current Liabilities	69	42	240	-
<b>Net Cash Flows Provided by Operating Activities</b>	<b>\$ 26,266</b>	<b>\$ 15,745</b>	<b>\$ 228,242</b>	<b>\$ 19,441</b>

The accompanying notes are an integral part of this statement.

Telephone Fund	Landfill Fund	Totals
\$ 555,091	\$ 47,945	\$ 1,511,612
(155,780)	(32,999)	(731,686)
(27,253)	(6,576)	(109,804)
<u>372,058</u>	<u>8,370</u>	<u>670,122</u>
(227,800)	-	(493,519)
90,000	-	139,053
<u>(137,800)</u>	<u>-</u>	<u>(354,466)</u>
-	-	(12,912)
75	-	29,603
<u>75</u>	<u>-</u>	<u>16,691</u>
2,433	-	8,732
<u>236,766</u>	<u>8,370</u>	<u>341,079</u>
21,425	26,007	225,198
<u>258,191</u>	<u>34,377</u>	<u>566,277</u>
340,501	7,767	629,490
31,624	546	47,564
-	-	(7,832)
(49)	-	510
(18)	57	390
<u>\$ 372,058</u>	<u>\$ 8,370</u>	<u>\$ 670,122</u>



**CITY OF FAITH**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006**

**(1) Summary of Significant Accounting Policies**

As discussed further in Note (1) c., these financial statements are presented on a modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). GAAP include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

**a. Reporting Entity**

The reporting entity of the City of Faith (the City) consists of primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

**b. Basis of Presentation**

Government-Wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories.

## **CITY OF FAITH**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2007 AND 2006**

#### **(1) Summary of Significant Accounting Policies (Continued)**

##### **b. Basis of Presentation (Continued)**

###### Fund Financial Statements: (Continued)

A fund is considered major if it is the primary operating fund of the City or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least ten percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least five percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the City financial reporting entity are described below:

###### Governmental Funds:

**General Fund** – the general fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The general fund is always considered to be a major fund.

**Special Revenue Funds** – special revenue funds are used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes. Major special revenue funds include:

**Municipal Gross Receipts Fund** – to account for the collection of a one percent tax on the gross receipts of lodgings, alcoholic beverages, prepared food and admissions, which tax shall be used for the purpose of land acquisition, architectural fees, construction costs, athletic facility buildings, including the promotion or advertising of the City.

**Sales Tax Fund** – to account for an additional one percent sales tax, which may be used only for capital improvements, land acquisition, the funding of public ambulances and medical emergency response vehicles, the purchasing of fire fighting vehicles and equipment, and debt retirement. This is a major fund.

**Capital Project Funds** – capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or trust funds for individuals, private organizations, or other governments). Major capital projects funds include:

**Public Safety Fund** – to account for grant proceeds to fund the capital acquisition of the Public Safety Building.

###### Proprietary Funds:

**Enterprise Funds** – enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**CITY OF FAITH**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2007 AND 2006**

**(1) Summary of Significant Accounting Policies (Continued)**

**b. Basis of Presentation (Concluded)**

Proprietary Funds: (Continued)

Proprietary Funds include:

Liquor Fund -- financed primarily by the sale of liquor; this fund accounts for construction and operation of the City liquor store. This is a major fund.

Water Fund - financed primarily by user charges; this fund accounts for the construction and operation of the City waterworks system and related facilities (SDCL 9-47-1). This is a major fund.

Electric Fund -- financed primarily by user charges; this fund accounts for the construction and operation of the City electricity system and related facilities. This is a major fund.

Wastewater Fund - financed primarily by user charges; this fund accounts for the construction and operation of the City sanitary sewer system and related facilities (SDCL 9-48-2). This is a major fund.

Telephone Fund -- financed primarily by user charges; this fund accounts for the construction and operation of the City telephone system and related facilities. This is a major fund.

Landfill Fund - financed primarily by user charges; this fund accounts for the construction and operation of the City rubble site and collection and disposal of solid waste. This is a major fund.

**c. Measurement Focus and Basis of Accounting**

Measurement focus is a term used to describe how transactions are recorded within the various financial statements. Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

*Measurement Focus:*

Government-Wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied within the limitations of the modified cash basis of accounting as defined below.

Fund Financial Statements:

In the fund financial statements, the current financial resources measurement focus or the economic resources measurement focus is used, applied within the limitations of the modified cash basis of accounting.

**CITY OF FAITH**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2007 AND 2006**

**(1) Summary of Significant Accounting Policies (Continued)**

**c. Measurement Focus and Basis of Accounting (Continued)**

*Basis of Accounting:*

All financial statements are presented using the modified cash basis of accounting. The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions. Under the cash basis of accounting, the statement of net assets reports only cash and cash equivalents. Under the modified cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed and assets and liabilities are recognized to the extent that cash has been received or disbursed.

Acceptable modifications to the cash basis of accounting implemented by the City in these financial statements are:

1. Recording of capital assets arising from cash transactions and depreciating those assets where appropriate.
2. Recording of long-term debt arising from cash transactions.
3. Recording both capital assets and related long-term debt used to finance the capital asset acquisition.
4. Recording inventory resulting from payment of cash to vendors.
5. Recording of investments arising from cash transactions.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the City applied USGAAP, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the government-wide financial statements and fund financial statements for proprietary fund types would use the accrual basis of accounting.

**d. Interfund Eliminations and Reclassifications**

Government-Wide Financial Statements:

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified, as follows:

- In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.

Fund Financial Statements:

- Noncurrent portions of long-term interfund receivables (reported in "Advance to" asset accounts) are equally offset by a fund balance reserve account which indicates that they do not constitute available spendable resources since they are not a component of net current assets. Current portions of interfund receivables (reported in "Due to/Due from" asset or liability accounts) are considered available spendable resources.

**CITY OF FAITH**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2007 AND 2006**

**(1) Summary of Significant Accounting Policies (Continued)**

**e. Capital Assets**

The accounting treatment for property, plant, and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-Wide Financial Statements:

Under the modified cash basis of accounting, capital assets arising from cash transactions reported in the government-wide financial statements are accounted for as assets in the Statement of Net Assets.

All capital assets are valued at cost or estimated historical cost, if actual historical cost is not available.

Infrastructure assets used in general government operations, consisting of certain improvements other than buildings, including roads, bridges, sidewalks, drainage systems, and lighting systems, acquired prior to January 1, 2004, were not required to be capitalized by the City. Infrastructure assets acquired since January 1, 2004, are recorded at cost, and classified as "Improvements Other than Buildings."

Under the modified cash basis, depreciation of all exhaustible capital assets arising from cash transactions is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation has been provided over the estimated useful lives using the straight-line method.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	\$ -0-	----N/A-----	----N/A-----
Improvements Other Than Buildings	\$ 3,000	Straight-line	10-50 yrs.
Buildings	\$ 3,000	Straight-line	10-100 yrs.
Machinery and Equipment	\$ 3,000	Straight-line	5-40 yrs.

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements:

In the fund financial statements, capital assets arising from cash transactions acquired for use in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund when paid for in cash. Capital assets acquired for use in proprietary fund operations are accounted for in the same manner as in the government-wide financial statements.

## **CITY OF FAITH**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2007 AND 2006**

#### **(1) Summary of Significant Accounting Policies (Continued)**

##### **f. Long-Term Liabilities**

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities, arising from cash transactions, to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities primarily consist of general obligation bonds and capital acquisition leases.

In the fund financial statements, debt proceeds for use in governmental fund operations are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when paid. The accounting for proprietary fund long-term debt is the same in the fund statements as in the government-wide statements.

##### **g. Revenue Received in Advance**

Under the modified cash basis of accounting, cash may have been received in advance of the City's providing a good or service to a customer, resulting in deferred revenue. There was no deferred revenue at December 31, 2007 or 2006.

##### **h. Program Revenues**

Program revenues derive directly from the program itself or from parties other than the City's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

1. Charges for services – These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program. There were no such revenues for 2007 or 2006.
3. Program-specific capital grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

##### **i. Proprietary Funds Revenue and Expense Classification**

In the proprietary fund's Statement of Revenues, Expenses, and Changes in Fund Net Assets, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

##### **j. Inventory**

Inventory in the enterprise liquor fund is valued at the lower of cost or market on the first-in, first-out basis.

**CITY OF FAITH**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2007 AND 2006**

**(1) Summary of Significant Accounting Policies (Concluded)**

**k. Cash and Cash Equivalents**

For the purpose of financial reporting, cash and cash equivalents includes all demand and savings accounts and certificates of deposit with a term to maturity at date of acquisition of three months or less.

The City pools the cash resources of its funds for cash management purposes. The proprietary funds essentially have access to the entire amount of their cash resources on demand. Accordingly, each proprietary fund's equity in the cash management pool is considered to be cash and cash equivalents for the purpose of the Statement of Cash Flows.

**l. Equity Classifications**

Government-Wide Financial Statements:

Equity is classified as net assets and is displayed in three components, as follows:

1. Invested in capital assets, net of related debt – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net assets – Consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation. There were no such restricted net assets at December 31, 2007 or 2006.
3. Unrestricted net assets – All other net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between reserved and unreserved components. Proprietary fund equity is classified the same as in the government-wide financial statements.

**m. Application of Net Assets**

It is the City's policy to first use restricted net assets, prior to the use of unrestricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**(2) Deposits and Investments**

The City follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

## CITY OF FAITH

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2007 AND 2006

#### (2) Deposits and Investments (Continued)

**Deposits** - The City's cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2, and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by Federal Home Loan Banks accompanied by written evidence of that bank's public debt rating, which may not be less than "AA," or a qualified public depository may furnish a corporate surety bond of a corporation duly authorized to do business in South Dakota.

**Investments** - In general, SDCL 4-5-6 permits City funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly including, without limitation, United States treasury bills, notes, bonds, and other obligations issued or directly or indirectly guaranteed by the United States government, or otherwise directly or indirectly backed by the full faith and credit of the United States government; provided that, for other than permanent, trust, retirement, building, and depreciation reserve funds, such securities shall either mature within eighteen months from the date of purchase or be redeemable at the option of the holder within eighteen months from the date of purchase; or (b) repurchase agreements fully collateralized by securities described in (a) above and meeting the requirements of SDLC 4-5-9, if the repurchase agreements are entered into only with those primary reporting dealers that report to the Federal Reserve Bank of New York and with the 100 largest United States commercial banks, as measured by domestic deposits; or (c) in shares of an open-end, no-load fund administered by an investment company registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933 and whose only investments are in securities described in (a) above and repurchase agreements described in (b) above.

As of December 31, 2007 and 2006, the City's cash and deposits consisted of checking and savings accounts, and certificates of deposit. All of these accounts are insured or collateralized in the City's name.

State law allows income from deposits and investments to be credited to either the general fund or the fund making the investment. The City's policy is to credit all income from deposits and investments to the fund making the investment.

*Interest Rate Risk:* The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.

*Credit Risk:* State law limits eligible investments for the City as discussed above. The City has no investment policy that would further limit its investment choices.

*Custodial Credit Risk:* The risk that in the event of a deposit failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2007, none of the City's deposits were exposed to custodial credit risk.

#### (3) Property Taxes

The City does not levy property taxes.



CITY OF FAITH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2007 AND 2006

(4) Changes in Capital Assets

A summary of changes in capital assets for the year ending December 31, 2006, is as follows:

	Balance 1/1/2006	Additions	Deletions	Balance 12/31/2006
<i>Governmental Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ 66,033	\$ -	\$ -	\$ 66,033
Construction Work in Progress	1,047,277	66,518	885,815	227,980
Total Capital Assets, not being Depreciated	1,113,310	66,518	885,815	294,013
Capital Assets, being Depreciated:				
Buildings	2,011,549	963,782	-	2,975,331
Improvements Other Than Buildings	775,400	-	-	775,400
Machinery and Equipment	315,868	62,515	-	378,383
Total Capital Assets Being Depreciated	3,102,817	1,026,297	-	4,129,114
Less Accumulated Depreciation for:				
Buildings	181,454	50,617	-	232,071
Improvements Other Than Buildings	153,560	38,695	-	192,255
Machinery and Equipment	130,491	22,292	-	152,783
Total Accumulated Depreciation	465,505	111,604	-	577,109
Total Governmental Activities Capital Assets, being Depreciated, Net	2,637,312	914,693	-	3,552,005
Total Governmental Capital Assets, Net	\$ 3,750,622	\$ 981,211	\$ 885,815	\$ 3,846,018

Depreciation expense was charged to functions as follows:

Public Works	\$ 46,890
General Government	35,668
Public Safety	12,961
Health and Welfare	9,422
Culture and Recreation	6,663
Total Depreciation Expense - Governmental	<u>\$ 111,604</u>

**CITY OF FAITH**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2007 AND 2006**

**(4) Changes in Capital Assets (Continued)**

A summary of changes in capital assets for the year ending December 31, 2007, is as follows:

	Balance 1/1/2007	Additions	Deletions	Balance 12/31/2007
<i>Governmental Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ 66,033	\$ -	\$ -	\$ 66,033
Construction Work in Progress	227,980	-	227,980	-
Total Capital Assets, not being Depreciated	294,013	-	227,980	66,033
Capital Assets, being Depreciated:				
Buildings	2,975,331	-	-	2,975,331
Improvements Other Than Buildings	775,400	260,891	-	1,036,291
Machinery and Equipment	378,383	17,196	-	395,579
Total Capital Assets Being Depreciated	4,129,114	278,087	-	4,407,201
Less Accumulated Depreciation for:				
Buildings	232,071	58,648	-	290,719
Improvements Other Than Buildings	192,255	44,026	-	236,281
Machinery and Equipment	152,783	25,993	-	178,776
Total Accumulated Depreciation	577,109	128,667	-	705,776
Total Governmental Activities Capital Assets, being Depreciated, Net	3,552,005	149,420	-	3,701,425
Total Governmental Capital Assets, Net	\$ 3,846,018	\$ 149,420	\$ 227,980	\$ 3,767,458

Depreciation expense was charged to functions as follows:

Public Works	\$ 51,924
General Government	36,214
Public Safety	20,992
Health and Welfare	11,758
Culture and Recreation	7,779
Total Depreciation Expense - Governmental	<u>\$ 128,667</u>

**CITY OF FAITH**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2007 AND 2006**

**(4) Changes in Capital Assets (Continued)**

A summary of changes in capital assets for the year ending December 31, 2006 is as follows:

	Balance 1/1/2006	Additions	Deletions	Balance 12/31/2006
<i>Business-Type Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ 4,673	\$ -	\$ -	\$ 4,673
Total Capital Assets, not being Depreciated	4,673	-	-	4,673
Capital Assets, being Depreciated:				
Buildings	146,000	-	-	146,000
Improvements Other Than Buildings	142,026	-	-	142,026
Machinery and Equipment	433,150	12,912	-	446,062
Total Capital Assets Being Depreciated	721,176	12,912	-	734,088
Less Accumulated Depreciation for:				
Buildings	97,333	4,423	-	101,756
Improvements Other Than Buildings	74,818	2,381	-	77,199
Machinery and Equipment	303,276	40,760	-	344,036
Total Accumulated Depreciation	475,427	47,564	-	522,991
Total Business-Type Activities Capital Assets, being Depreciated, Net	245,749	(34,652)	-	211,097
Total Business-Type Capital Assets, Net	\$ 250,422	\$ (34,652)	\$ -	\$ 215,770

Depreciation expense was charged to functions as follows:

<i>Business-Type Activities:</i>	
Telephone	\$ 31,624
Water	11,887
Electric	2,586
Liquor	759
Landfill	546
Wastewater	162
Total Depreciation Expense - Business-Type	<u>\$ 47,564</u>

**CITY OF FAITH**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2007 AND 2006**

**(4) Changes in Capital Assets (Concluded)**

A summary of changes in capital assets for the year ending December 31, 2007 is as follows:

	Balance 1/1/2007	Additions	Deletions	Balance 12/31/2007
<i>Business-Type Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ 4,673	\$ -	\$ -	\$ 4,673
Total Capital Assets, not being Depreciated	4,673	-	-	4,673
Capital Assets, being Depreciated:				
Buildings	146,000	-	-	146,000
Improvements Other Than Buildings	142,026	-	-	142,026
Machinery and Equipment	446,062	34,000	-	480,062
Total Capital Assets Being Depreciated	734,088	34,000	-	768,088
Less Accumulated Depreciation for:				
Buildings	101,756	4,424	-	106,180
Improvements Other Than Buildings	77,199	2,380	-	79,579
Machinery and Equipment	344,036	18,842	-	362,878
Total Accumulated Depreciation	522,991	25,646	-	548,637
Total Business-Type Activities Capital Assets, being Depreciated, Net	211,097	8,354	-	219,451
Total Business-Type Capital Assets, Net	\$ 215,770	\$ 8,354	\$ -	\$ 224,124

Depreciation expense was charged to functions as follows:

<i>Business-Type Activities:</i>	
Water	\$ 11,886
Telephone	8,041
Electric	3,860
Liquor	1,151
Landfill	546
Wastewater	162
Total Depreciation Expense - Business-Type	<u>\$ 25,646</u>

**CITY OF FAITH**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2007 AND 2006**

**(5) Long-Term Debt**

A summary of the changes in long-term debt for the years ending December 31, 2006 and 2007, is as follows:

	Balance 1/1/2006	Additions	Deletions	Balance 12/31/2006	Due Within One Year
<b>Primary Government:</b>					
<b>Governmental Activities:</b>					
General Obligation Bonds	\$ 77,689	\$ -	\$ 14,423	\$ 63,266	\$ 14,960
Capital Acquisition Leases	1,014,822	-	37,171	977,651	39,079
Total Governmental Activities	\$ 1,092,511	\$ -	\$ 51,594	\$ 1,040,917	\$ 54,039
Total Primary Government	\$ 1,092,511	\$ -	\$ 51,594	\$ 1,040,917	\$ 54,039

	Balance 1/1/2007	Additions	Deletions	Balance 12/31/2007	Due Within One Year
<b>Primary Government:</b>					
<b>Governmental Activities:</b>					
General Obligation Bonds	\$ 63,266	\$ -	\$ 14,960	\$ 48,306	\$ 15,517
Capital Acquisition Leases	977,651	-	39,079	938,572	41,086
Total Governmental Activities	\$ 1,040,917	\$ -	\$ 54,039	\$ 986,878	\$ 56,603
Total Primary Government	\$ 1,040,917	\$ -	\$ 54,039	\$ 986,878	\$ 56,603

The purchase price at the commencement of the capital acquisition lease was:

Principal	\$ 1,100,000
Interest	466,452
<b>Total</b>	<b>\$ 1,566,452</b>

Debt payable at December 31, 2007, is comprised of the following:

*General Obligation*

General Obligation Refunding Bonds, Series 2003; mature August 2010, bear interest at 3.69 percent with semi-annual payments of \$8,579. Financed through the Sales Tax Fund. \$ 48,306

*Capital Acquisition Leases*

Capital Lease for recreation center that bears interest at 5.07 percent with semi-annual payments of \$44,079, matures April 2013 at which time full balance is due. Financed through the Sales Tax Fund. 938,572

<b>Total Long-Term Debt</b>	<b>\$ 986,878</b>
-----------------------------	-------------------

**CITY OF FAITH**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2007 AND 2006**

**(5) Long-Term Debt (Continued)**

The annual requirements to amortize long-term debt outstanding as of December 31, 2007, are as follows:

	General Obligation		Capital Acquisition Lease		Total	
	Interest	Principal	Interest	Principal	Interest	Principal
2008	\$ 1,640	\$ 15,517	\$ 47,071	\$ 41,086	\$ 48,711	\$ 56,603
2009	1,063	16,095	44,962	43,195	46,025	59,290
2010	463	16,694	42,744	45,413	43,207	62,107
2011	-	-	40,413	47,744	40,413	47,744
2012	-	-	39,202	48,955	39,202	48,955
2013-2015	-	-	16,781	712,179	16,781	712,179
Total	\$ 3,166	\$ 48,306	\$ 231,173	\$ 938,572	\$ 234,339	\$ 986,878

**(6) Interfund Transfers**

Interfund transfers during the years ended December 31, 2007 and 2006, were as follows:

2006 Fund	Transfers In	Transfers Out
<i>Major Funds:</i>		
General Fund	\$ 517,064	\$ -
Public Safety Fund	55,000	78,545
Telephone Fund	26,000	253,800
Electric Fund	-	232,750
Liquor Fund	25,500	58,469
Total Transfers	\$ 623,564	\$ 623,564
 2007 Fund	 Transfers In	 Transfers Out
<i>Major Funds:</i>		
General Fund	\$ 517,250	\$ -
Public Safety Fund	5,514	-
Telephone Fund	11,000	268,085
Electric Fund	6,000	227,930
Liquor Fund	-	39,135
<i>NonMajor Funds:</i>		
Sports Complex	-	4,614
Total Transfers	\$ 539,764	\$ 539,764

Transfers are used to (a) move revenues from the fund that the statute or budget requires to collect them to the fund that statute or budget requires to expend them and to (b) use unrestricted revenues collected in the General Fund to finance the various programs accounted for in the other funds in accordance with budget authorizations.

## **CITY OF FAITH**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2007 AND 2006**

#### **(7) Retirement Plan – South Dakota Retirement System**

All employees, except for part-time employees, participate in the South Dakota Retirement System (SDRS), a cost-sharing multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivors' benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

General employees are required by state statute to contribute six percent of their salary to the plan, while public safety and judicial employees contribute eight and nine percent, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2007, 2006, and 2005 were \$18,801, \$15,401 and \$14,327, respectively, equal to the required contributions each year.

#### **(8) Joint Ventures**

The City participates in the South Dakota Networks, Inc. (the Network), a network formed for the purpose of receiving and delivering phone traffic for its members. For the years ended December 31, 2007 and 2006, the City's interest in the voting and non-voting common stock is \$62,058, which is recorded as an investment (using the cost method) within the telephone fund.

Ownership in the Network consists of 40 entities, none of which have significant ownership percentages. The City has less than two percent ownership. Separate financial statements for this joint venture are available from South Dakota Network, Inc., Sioux Falls, South Dakota.

At December 31, 2007, this joint venture had total fund equity of \$29,367,086 (unaudited) and long-term debt of \$579,326 (unaudited).

#### **(9) Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the years ended December 31, 2007 and 2006, the City managed its risks as follows:

##### Employee Health Insurance:

The City purchases health insurance for its employees from a commercial insurance carrier.

##### Liability Insurance:

The City purchases property and liability insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials from a commercial insurance carrier.

**CITY OF FAITH**

**NOTES TO FINANCIAL STATEMENTS (CONCLUDED)  
DECEMBER 31, 2007 AND 2006**

**(9) Risk Management (Continued)**

Worker's Compensation:

The City joined the South Dakota Municipal League Worker's Compensation Fund (the Pool), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays an annual premium to the Pool to provide worker's compensation coverage for its employees. Coverage limits are set by state statute. The Pool pays the first \$325,000 of any claim per individual. The Pool has reinsurance, which covers up to \$1,675,000 per individual per incident. The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have never exceeded the liability coverage.

Unemployment Benefits:

The City has elected to be a noncontributing member of the Unemployment Compensation Fund established by state law and managed by the State of South Dakota. As a result, the City retains all risks for liabilities resulting from claims for unemployment benefits.

During the years ended December 31, 2007 and 2006, no claims were filed for unemployment benefits. It is not anticipated that any additional claims for unemployment benefits will be filed in the next year.

**(10) City Officers**

The following were municipal officers for the year ended December 31, 2007:

**Mayor:**  
Glen Haines  
**Council:**  
Jim Sheridan  
Karen Inghram  
Jim Selby, Jr.  
Chris Murray  
Mike Merriman  
Joel Afdahl  
Tom Maxwell  
Randy Becker  
Sandra Rasmussen  
**Finance Officer:**  
Debbie Brown

**(11) Operating Lease**

During the year ended December 31, 2003, the Faith School District began leasing a portion of the community center building from the City. This is a fifteen year operating lease that requires annual lease payments of \$36,167. The following is a schedule of rental income to be received by year under this lease as of December 31, 2007:

2008	\$	36,167
2009		36,167
2010		36,167
2011		36,167
2012		36,167
Thereafter		198,918



## REQUIRED SUPPLEMENTARY INFORMATION

CITY OF FAITH

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND - BUDGETARY BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

		Original Budget	Final Budget	Actual - Budgetary Basis	Variance
<b>Revenue:</b>					
	<i>Taxes:</i>				
313	Sales Taxes	\$ 1,200	\$ 1,200	\$ -	\$ (1,200)
314	Gross Receipts Business Taxes	-	-	1,053	1,053
315	Amusement Taxes	100	100	440	340
320	Licenses and Permits	1,600	1,600	2,510	910
	<i>Intergovernmental Revenue:</i>				
331	Federal Grant	-	18,825	-	(18,825)
334	State Grant	-	5,810	57,256	51,446
335.02	Motor Vehicle Commercial Prorate	3,300	3,300	1,877	(1,423)
335.03	Liquor Tax Reversion	2,500	2,500	2,661	161
335.04	Motor Vehicle Licenses (5%)	10,600	10,600	7,780	(2,820)
335.06	Fire Insurance Premium Reversion	-	-	971	971
335.08	Local Government Highway and Bridge Fund	6,000	6,000	7,068	1,068
338.01	County Road Tax (25%)	500	500	509	9
338.02	County HBR Tax (25%)	900	900	-	(900)
338.99	Other	2,900	2,900	3,053	153
	<i>Charges for Goods and Services:</i>				
341	General Government	200	200	158	(42)
342	Public Safety	2,100	2,100	965	(1,135)
343	Highways and Streets	500	500	1,117	617
346	Culture and Recreation	3,700	3,700	3,948	248
347	Ambulance	75,000	75,000	138,276	63,276
348	Cemetery	-	-	3,210	3,210
349	Other	34,400	34,400	31,085	(3,315)
	<i>Miscellaneous Revenue:</i>				
361	Investment Earnings	250	250	1,741	1,491
362	Rentals	27,567	27,567	39,799	12,232
367	Contributions and Donations From Private Sources	4,000	7,000	13,206	6,206
369	Other	4,400	4,400	9,551	5,151
<b>Total Revenue</b>		<b>181,717</b>	<b>209,352</b>	<b>328,234</b>	<b>118,882</b>

CITY OF FAITH

**BUDGETARY COMPARISON SCHEDULE (CONTINUED)**  
**GENERAL FUND - BUDGETARY BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance
<b>Expenditures:</b>				
<i>General Government:</i>				
411 Legislative	3,000	3,000	3,031	(31)
412 Executive	16,725	21,225	17,437	3,788
413 Elections	500	720	712	8
414 Financial Administration	133,825	133,925	111,020	22,905
419 Other	141,575	185,025	144,423	40,602
<i>Public Safety:</i>				
421 Police	107,850	109,350	105,466	3,884
422 Fire	7,300	23,300	22,061	1,239
<i>Public Works:</i>				
431 Highway and Streets	133,610	150,860	97,442	53,418
435 Airport	32,105	47,105	41,204	5,901
437 Cemeteries	5,000	5,370	5,323	47
<i>Health and Welfare:</i>				
441 Health	9,540	9,540	5,599	3,941
446 Ambulance	111,100	121,100	110,197	10,903
<i>Culture and Recreation:</i>				
451 Recreation	4,280	8,415	13,429	(5,014)
452 Parks	6,660	14,160	14,159	1
453 Golf Course	-	533	-	533
454 Swimming Pool	23,525	25,552	25,552	-
455 Library	24,000	26,900	26,862	38
<i>Conservation and Development:</i>				
465 Economic Development and Assistance	24,290	24,290	18,783	5,507
465.3 Promoting the City	-	69,300	69,275	25
466 Economic Opportunity	1,000	1,000	1,000	-
<b>Total Expenditures</b>	<b>785,885</b>	<b>980,670</b>	<b>832,975</b>	<b>147,695</b>
391.1 Transfers In	598,168	747,085	517,250	(229,835)
<b>Total Other Financing Sources</b>	<b>598,168</b>	<b>747,085</b>	<b>517,250</b>	<b>(229,835)</b>
<b>Net Change in Fund Balance</b>	<b>(6,000)</b>	<b>(24,233)</b>	<b>12,509</b>	<b>36,742</b>
<b>Fund Balance, January 1, 2007</b>	<b>118,363</b>	<b>118,363</b>	<b>118,363</b>	<b>-</b>
<b>Fund Balance, December 31, 2007</b>	<b>\$ 112,363</b>	<b>\$ 94,130</b>	<b>\$ 130,872</b>	<b>\$ 36,742</b>

The accompanying notes are an integral part of this statement.

**CITY OF FAITH**

**BUDGETARY COMPARISON SCHEDULE  
MUNICIPAL GROSS RECEIPTS TAX FUND - BUDGETARY BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual - Budgetary Basis</b>	<b>Variance</b>
<b>Revenue:</b>				
<i>Taxes:</i>				
313    Sales Taxes	\$ 10,000	\$ 10,000	\$ 11,345	\$ 1,345
<b>Total Revenue</b>	<b>10,000</b>	<b>10,000</b>	<b>11,345</b>	<b>1,345</b>
<b>Expenditures:</b>				
<b>Net Change in Fund Balance</b>	<b>10,000</b>	<b>10,000</b>	<b>11,345</b>	<b>1,345</b>
<b>Fund Balance, January 1, 2007</b>	<b>(18,152)</b>	<b>(18,152)</b>	<b>(18,152)</b>	<b>-</b>
<b>Fund Balance, December 31, 2007</b>	<b>\$ (8,152)</b>	<b>\$ (8,152)</b>	<b>\$ (6,807)</b>	<b>\$ 1,345</b>

The accompanying notes are an integral part of this statement.

**CITY OF FAITH**

**BUDGETARY COMPARISON SCHEDULE  
SALES TAX FUND - BUDGETARY BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual - Budgetary Basis</b>	<b>Variance</b>
<b>Revenue:</b>				
<i>Taxes:</i>				
313    Sales Taxes	\$ 150,000	\$ 150,000	\$ 170,733	\$ 20,733
<i>Miscellaneous Revenue:</i>				
361    Investment Earnings	900	900	1,186	286
<b>Total Revenue</b>	<b>150,900</b>	<b>150,900</b>	<b>171,919</b>	<b>21,019</b>
<b>Expenditures:</b>				
470    Debt Service	105,315	105,315	105,315	-
<b>Net Change in Fund Balance</b>	<b>45,585</b>	<b>45,585</b>	<b>66,604</b>	<b>21,019</b>
<b>Fund Balance, January 1, 2007</b>	<b>168,877</b>	<b>168,877</b>	<b>168,877</b>	<b>-</b>
<b>Fund Balance, December 31, 2007</b>	<b>\$ 214,462</b>	<b>\$ 214,462</b>	<b>\$ 235,481</b>	<b>\$ 21,019</b>

The accompanying notes are an integral part of this statement.

## REQUIRED SUPPLEMENTARY INFORMATION

CITY OF FAITH

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND - BUDGETARY BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

		Original Budget	Final Budget	Actual - Budgetary Basis	Variance
<b>Revenue:</b>					
<i>Taxes:</i>					
313	Sales Taxes	\$ 1,300	\$ 1,300	\$ -	\$ (1,300)
314	Gross Receipts Business Taxes	-	-	589	589
315	Amusement Taxes	96	96	156	60
320	Licenses and Permits	1,600	1,600	2,685	1,085
<i>Intergovernmental Revenue:</i>					
331	Federal Grant	-	53,000	9,727	(43,273)
334	State Grant	-	79,000	55,771	(23,229)
335.02	Motor Vehicle Commercial Prorate	3,300	3,300	1,822	(1,478)
335.03	Liquor Tax Reversion	2,500	2,500	2,725	225
335.04	Motor Vehicle Licenses (5%)	10,600	10,600	7,317	(3,283)
335.06	Fire Insurance Premium Reversion	-	-	1,176	1,176
335.08	Local Government Highway and Bridge Fund	6,000	6,000	6,738	738
338.01	County Road Tax (25%)	500	500	527	27
338.02	County HBR Tax (25%)	300	300	928	628
338.99	Other	2,900	2,900	2,597	(303)
<i>Charges for Goods and Services:</i>					
341	General Government	200	200	56	(144)
342	Public Safety	2,600	2,600	795	(1,805)
343	Highways and Streets	500	500	60	(440)
346	Culture and Recreation	3,700	3,700	3,766	66
347	Ambulance	48,000	48,000	118,424	70,424
348	Cemetery	-	-	1,350	1,350
349	Other	34,400	34,400	20,480	(13,920)
<i>Miscellaneous Revenue:</i>					
361	Investment Earnings	250	250	1,421	1,171
362	Rentals	29,967	29,967	39,909	9,942
367	Contributions and Donations From Private Sources	4,000	4,000	4,000	-
369	Other	2,000	2,000	5,394	3,394
<b>Total Revenue</b>		<b>154,713</b>	<b>286,713</b>	<b>288,413</b>	<b>1,700</b>

**CITY OF FAITH**

**BUDGETARY COMPARISON SCHEDULE (CONTINUED)  
GENERAL FUND - BUDGETARY BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

		<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual - Budgetary Basis</b>	<b>Variance</b>
<b>Expenditures:</b>					
	<i>General Government:</i>				
411	Legislative	3,000	3,000	2,745	255
412	Executive	16,725	17,625	17,707	(82)
413	Elections	500	500	189	311
414	Financial Administration	124,545	124,545	113,111	11,434
419	Other	131,075	159,075	154,945	4,130
	<i>Public Safety:</i>				
421	Police	99,002	99,002	97,458	1,544
422	Fire	7,300	17,100	17,041	59
	<i>Public Works:</i>				
431	Highway and Streets	131,410	131,410	94,804	36,606
435	Airport	32,105	85,105	85,659	(554)
437	Cemeteries	5,000	5,000	3,454	1,546
	<i>Health and Welfare:</i>				
441	Health	9,540	9,540	8,683	857
446	Ambulance	112,100	142,100	145,431	(3,331)
	<i>Culture and Recreation:</i>				
451	Recreation	4,280	9,280	8,951	329
452	Parks	6,660	6,660	3,272	3,388
453	Golf Course	-	895	-	895
454	Swimming Pool	23,525	24,425	24,363	62
455	Library	24,000	24,000	25,900	(1,900)
	<i>Conservation and Development:</i>				
465	Economic Development and Assistance	12,290	40,540	42,270	(1,730)
466	Economic Opportunity	1,000	1,000	1,000	-
<b>Total Expenditures</b>		<b>744,057</b>	<b>900,802</b>	<b>846,983</b>	<b>53,819</b>
391.1	Transfers In	582,500	748,145	517,064	(231,081)
391.4	Compensation for Loss or Damage To Capital Assets	-	-	46,834	46,834
<b>Total Other Financing Sources</b>		<b>582,500</b>	<b>748,145</b>	<b>563,898</b>	<b>(184,247)</b>
<b>Net Change in Fund Balance</b>		<b>(6,844)</b>	<b>134,056</b>	<b>5,328</b>	<b>(128,728)</b>
<b>Fund Balance, January 1, 2006</b>		<b>113,035</b>	<b>113,035</b>	<b>113,035</b>	<b>-</b>
<b>Fund Balance, December 31, 2006</b>		<b>\$ 106,191</b>	<b>\$ 247,091</b>	<b>\$ 118,363</b>	<b>\$ (128,728)</b>

The accompanying notes are an integral part of this statement.



**CITY OF FAITH**

**BUDGETARY COMPARISON SCHEDULE  
MUNICIPAL GROSS RECEIPTS TAX FUND - BUDGETARY BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual - Budgetary Basis</b>	<b>Variance</b>
<b>Revenue:</b>				
<i>Taxes:</i>				
313    Sales Taxes	\$ 10,000	\$ 10,000	\$ 11,172	\$ 1,172
<b>Total Revenue</b>	<b>10,000</b>	<b>10,000</b>	<b>11,172</b>	<b>1,172</b>
<b>Expenditures:</b>				
<b>Net Change in Fund Balance</b>	<b>10,000</b>	<b>10,000</b>	<b>11,172</b>	<b>1,172</b>
<b>Fund Balance, January 1, 2006</b>	<b>(29,324)</b>	<b>(29,324)</b>	<b>(29,324)</b>	<b>-</b>
<b>Fund Balance, December 31, 2006</b>	<b>\$ (19,324)</b>	<b>\$ (19,324)</b>	<b>\$ (18,152)</b>	<b>\$ 1,172</b>

The accompanying notes are an integral part of this statement.

**CITY OF FAITH**

**BUDGETARY COMPARISON SCHEDULE  
SALES TAX FUND - BUDGETARY BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual - Budgetary Basis</b>	<b>Variance</b>
<b>Revenue:</b>				
<i>Taxes:</i>				
313    Sales Taxes	\$ 122,000	\$ 122,000	\$ 166,143	\$ 44,143
<i>Miscellaneous Revenue:</i>				
361    Investment Earnings	350	350	1,062	712
<b>Total Revenue</b>	<b>122,350</b>	<b>122,350</b>	<b>167,205</b>	<b>44,855</b>
<b>Expenditures:</b>				
470    Debt Service	105,315	105,315	105,315	-
<b>Net Change in Fund Balance</b>	<b>17,035</b>	<b>17,035</b>	<b>61,890</b>	<b>44,855</b>
<b>Fund Balance, January 1, 2006</b>	<b>106,987</b>	<b>106,987</b>	<b>106,987</b>	<b>-</b>
<b>Fund Balance, December 31, 2006</b>	<b>\$ 124,022</b>	<b>\$ 124,022</b>	<b>\$ 168,877</b>	<b>\$ 44,855</b>

The accompanying notes are an integral part of this statement.

**CITY OF FAITH**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
DECEMBER 31, 2007 AND 2006**

**(1) Budgets and Budgetary Accounting**

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. At the first regular board meeting in September of each year, or within ten days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the governing board, the operating budget is legally binding and actual disbursements for each purpose cannot exceed the amounts budgeted, except as indicated in item number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year-end unless encumbered by resolution of the governing board.
6. The City did not encumber any amounts at December 31, 2007 or 2006.
7. Formal budgetary integration is employed as a management control device during the year for the general fund, special revenue funds, capital projects funds, and debt service funds.
8. Budgets for the general fund and major special revenue funds are adopted on a basis consistent with the modified cash basis of accounting.

**(2) GAAP Budgetary Accounting Basis Differences**

The financial statements prepared in conformity with the modified cash basis of accounting present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new fire truck would be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances, however in the Budgetary Required Supplementary Information Schedule, the purchase of a fire truck would be reported as an expenditure of the Public Safety/Fire Department function of government, along with all other current Fire Department related expenditures.

## OTHER SUPPLEMENTARY INFORMATION

**CITY OF FAITH**

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2007**

	Debt Service Fund	Swimming Pool Fund	Sports Complex Fund	Total Nonmajor Governmental Funds
<b>ASSETS:</b>				
101 Cash and Cash Equivalents	\$ 512	\$ 9,301	\$ -	\$ 9,813
115 Accounts Receivable, Net	79	-	-	79
<b>TOTAL ASSETS</b>	<b>\$ 591</b>	<b>\$ 9,301</b>	<b>\$ -</b>	<b>\$ 9,892</b>
<b>LIABILITIES AND FUND BALANCES:</b>				
<b>Liabilities:</b>				
<b>Fund Balances:</b>				
262 Unreserved Fund Balances:				
262.09 Undesignated, Reported in:				
Debt Service Funds	\$ 591	\$ -	\$ -	\$ 591
Capital Project Funds	-	9,301	-	9,301
<b>TOTAL FUND BALANCES</b>	<b>591</b>	<b>9,301</b>	<b>-</b>	<b>9,892</b>
<b>TOTAL LIABILITIES AND FUND</b>	<b>\$ 591</b>	<b>\$ 9,301</b>	<b>\$ -</b>	<b>\$ 9,892</b>

CITY OF FAITH

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2007

	Debt Service Fund	Swimming Pool Fund	Sports Complex Fund	Total Nonmajor Governmental Funds
<b>Revenues:</b>				
<i>Miscellaneous Revenue:</i>				
346 Culture and Recreation	\$ -	\$ -	\$ 864	\$ 864
363 Special Assessments	-	62	-	62
<b>Total Revenue</b>	<b>-</b>	<b>62</b>	<b>864</b>	<b>926</b>
<b>Expenditures:</b>				
<b>Excess of Revenue Over Expenditures</b>	<b>-</b>	<b>62</b>	<b>864</b>	<b>926</b>
<b>Other Financing Uses:</b>				
511 Transfers Out	-	-	(4,614)	(4,614)
<b>Total Other Financing Uses</b>	<b>-</b>	<b>-</b>	<b>(4,614)</b>	<b>(4,614)</b>
<b>Net Change in Fund Balance</b>	<b>-</b>	<b>62</b>	<b>(3,750)</b>	<b>(3,688)</b>
<b>Fund Balance - January 1, 2007</b>	<b>591</b>	<b>9,239</b>	<b>3,750</b>	<b>13,580</b>
<b>Fund Balance - December 31, 2007</b>	<b>\$ 591</b>	<b>\$ 9,301</b>	<b>\$ -</b>	<b>\$ 9,892</b>

## OTHER SUPPLEMENTARY INFORMATION

**CITY OF FAITH**

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2006**

	<b>Debt Service Fund</b>	<b>Swimming Pool Fund</b>	<b>Sports Complex Fund</b>	<b>Total Nonmajor Governmental Funds</b>
<b>ASSETS:</b>				
101 Cash and Cash Equivalents	\$ 512	\$ 9,239	\$ 3,750	\$ 13,501
115 Accounts Receivable, Net	79	-	-	79
<b>TOTAL ASSETS</b>	<b>\$ 591</b>	<b>\$ 9,239</b>	<b>\$ 3,750</b>	<b>\$ 13,580</b>
<b>LIABILITIES AND FUND BALANCES:</b>				
<b>Liabilities:</b>				
<b>FUND BALANCES:</b>				
262 Unreserved Fund Balances:				
262.09 Undesignated, Reported in:				
Debt Service Funds	\$ 591	\$ -	\$ -	\$ 591
Capital Project Funds	-	9,239	3,750	12,989
<b>TOTAL FUND BALANCES</b>	<b>591</b>	<b>9,239</b>	<b>3,750</b>	<b>13,580</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 591</b>	<b>\$ 9,239</b>	<b>\$ 3,750</b>	<b>\$ 13,580</b>



**CITY OF FAITH**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<b>Debt Service Fund</b>	<b>Swimming Pool Fund</b>	<b>Sports Complex Fund</b>	<b>Total Nonmajor Governmental Funds</b>
<b>Revenues:</b>				
<i>Miscellaneous Revenue:</i>				
363 Special Assessments	\$ -	\$ 80	\$ -	\$ 80
<b>Total Revenue</b>	<b>-</b>	<b>80</b>	<b>-</b>	<b>80</b>
<b>Expenditures:</b>				
485 Capital Outlay	-	-	5,600	5,600
<b>Total Expenditures</b>	<b>-</b>	<b>-</b>	<b>5,600</b>	<b>5,600</b>
<b>Net Change in Fund Balance</b>	<b>-</b>	<b>80</b>	<b>(5,600)</b>	<b>(5,520)</b>
<b>Fund Balance - January 1, 2006</b>	<b>591</b>	<b>9,159</b>	<b>9,350</b>	<b>19,100</b>
<b>Fund Balance - December 31, 2006</b>	<b>\$ 591</b>	<b>\$ 9,239</b>	<b>\$ 3,750</b>	<b>\$ 13,580</b>



-61-  
Ketel Thorstenson, LLP

Certified Public Accountants

810 Quincy Street

P.O. Box 3140, Rapid City, South Dakota 57709

Telephone (605) 342-5630 • e-mail: ktllp@ktllp.com

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

City Council  
City of Faith  
Faith, South Dakota

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **CITY OF FAITH** (the City) as of and for the years ended December 31, 2007 and 2006, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 3, 2008. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described in the accompanying Auditor's Comments and Closing Conference as 2007-1, 2007-2, 2007-3, 2007-4, and 2007-5 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider findings 2007-1, 2007-2, 2007-3, and 2007-4 to be material weaknesses.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under Government Auditing Standards described in the accompanying Auditor's Comments and Closing Conference as 2007-6.

Management's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit management's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Mayor, Common Council, management, federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



KETEL THORSTENSON, LLP  
Certified Public Accountants

November 3, 2008

**CITY OF FAITH**

**AUDITOR'S COMMENTS AND CLOSING CONFERENCE  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

**A. Status of Prior Audit Findings and Recommendations**

The prior year audit finding 05-1 regarding the segregation of duties' findings has been included with the current year finding 2007-3.

**CITY OF FAITH**

**AUDITOR'S COMMENTS AND CLOSING CONFERENCE (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

**B. Findings – Financial Statement Audit**

**SIGNIFICANT DEFICIENCIES – MATERIAL WEAKNESSES**

**2007-1 FINDING: Internal Control Over Significant Accounts**

Condition: During the course of our engagement, we proposed material audit adjustments that resulted in a \$55,281 decrease in reported net assets in 2006 and a \$13,234 increase in reported net assets in 2007. Audit adjustments included adjusting capital assets, rolling forward the fund balances, recording accounts payable, eliminating negative cash balances, eliminating uncollectible receivables, and adjusting cash.

Criteria and Effect: These adjustments would not have been identified as a result of the City's existing internal controls, and therefore, could have resulted in a material misstatement of the City's financial statements.

Recommendation: We recommend changes in operations be continually reviewed for potential changes in accounting so that the appropriate entries can be made throughout the year and that the balance sheet accounts be reconciled to subsidiary listings at a minimum at year-end.

Response/Corrective Action Plan: In the future, the City will adjust the year-end balances to reflect the necessary accruals and adjustments. The Finance Officer, Debbie Brown, is responsible for this corrective action plan.

**2007-2 FINDING: Financial Statement Preparation**

Condition: As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. During 2006, a new auditing standard from the American Institute of Certified Public Accountants, SAS 112, became effective. This statement requires auditors to communicate this situation to the City Council as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of the City's statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint, we do both for the City at the same time in connection with our audit. This is not unusual for us to do this with municipalities of your size. As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in the City's statements. We are satisfied that the appropriate steps have been taken to provide the City with the completed financial statements.

Criteria and Effect: It is our responsibility to inform the City Council that this deficiency could result in a material misstatement to the financial statements that would not have been prevented or detected by the City's management.

Recommendation: It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations

Response/Corrective Action Plan: The City will evaluate the risk associated with this condition. The Finance Officer, Debbie Brown, is responsible for this corrective action plan.

## CITY OF FAITH

### AUDITOR'S COMMENTS AND CLOSING CONFERENCE (CONTINUED) FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

#### B. Findings – Financial Statement Audit (Continued)

##### SIGNIFICANT DEFICIENCIES – MATERIAL WEAKNESSES (Continued)

###### 2007-3 FINDING: Segregation of Duties

Condition: There is a general lack of segregation of duties in the finance office, specifically:

- a. We noted that the City occasionally maintains several blank checks on hand that are signed by the Mayor.
- b. The Finance Officer and Deputy Finance Officer have access to the general ledger and receive signed checks back. In addition, the same office personnel receive the bank statements, reconcile the bank accounts, and the bank reconciliations are not reviewed.
- c. The Office Help opens the mail, sometimes receives the unopened bank statement, and has access to adjust the customer accounts. The Office Help also agrees the checks to the Council-approved vouchers and mails out the signed checks.
- d. The Finance Officer and Deputy Finance Officer receive customer payments, have access to write-off and adjust customer accounts, and the customer adjustments or write-off reports are not reviewed. In addition, the Finance Officer prepares the revenue portion of the financial statements in excel that are given to the City Council for review.
- e. There is a lack of controls at the swimming pool. The attendant collects the money and prepares the daily attendance sheet, which is used to reconcile the money.
- f. Although the supporting receipts are attached to the credit card statement, the detail of the credit card bill is not presented to the Council during the approval process.
- g. The overall financial statements reviewed by the Council (other than the budget to actual expense comparisons) are generated by the Finance Officer in excel and are not compared to the financial statements generated directly from the accounting software.
- h. Bank reconciliations were not properly cut-off at December 31, 2007 or 2006 for the bar bank account within the liquor fund, which creates a risk of cash being misstated on the financial statements. We noted checks and deposits dated January 2008 and 2007 that had been improperly included in the December 2007 and 2006 bank reconciliations as outstanding items.

Criteria and Effect: Internal controls should be in place to provide reasonable assurance that all financial transactions are reviewed and approved before payments are made and reports are generated. Controls also need to be in place to ensure all revenue is processed and recorded correctly. A proper segregation of duties and functions assures adequate control over safeguarding of assets and the reliability of financial records and reporting. The effectiveness of the internal control system relies on enforcement by management. Small problems can lead to more severe problems, such as questioned costs.

#### Recommendation:

- a. We recommend the all checks be signed by the Mayor only after review of the invoice and voucher.
- b. The checks should be signed by the Finance Officer first (or other check signers) and then be signed by the Mayor. The checks should then go to the Office Help to stuff and mail, as she is not an authorized check signer. The unopened bank statement should go to a City Council member or the Mayor. If this is not feasible, the unopened bank statement should go to the Finance Officer. The bank statement activity should be reviewed for propriety. The bank reconciliation should be prepared by the Deputy Finance Officer and reviewed by the Finance Officer.

**CITY OF FAITH**

**AUDITOR'S COMMENTS AND CLOSING CONFERENCE (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

**B. Findings – Financial Statement Audit (Continued)**

**SIGNIFICANT DEFICIENCIES – MATERIAL WEAKNESSES (Continued)**

**2007-3 FINDING: Segregation of Duties (Continued)**

**Recommendation: (Continued)**

- c. The listing of account adjustments and write-offs printed directly from the accounting software should be reviewed monthly by a City Council Member (preferably) or the Finance Officer. An income statement, including revenues, should be printed from the accounting software when reviewing the adjustments and write-offs. As mentioned above, the unopened bank statement should be reviewed by a City Council Member or the Mayor, which would mitigate the risk of the Office Help mailing the checks and sometimes receiving the unopened bank statement.
- d. Customer payments should be received and logged by the Office Help, who provides one copy to the Deputy Finance Officer for entering into the computer system and provides a second copy to the Finance Officer for review. After payments have been entered into the computer system, the Finance Officer should review the Deputy Finance Officer's application of payments by comparing what was entered into the general ledger by the Deputy Finance Officer to the receipts log created by the Office Help. In addition, a report generated directly from the City's accounting software of the adjustments to customers' accounts should be reviewed by the Finance Officer. The revenue portion of the financial statements should be agreed to the financial statements generated directly from the accounting software by the Deputy Finance Officer or a City Council Member.
- e. The customers of the pool should sign an attendance sheet once they have paid. The money received could then be reconciled to the attendance sheet by the finance personnel.
- f. In addition to the supporting receipts, we recommend that the detail of the credit card bills be presented to the Council during the Council's approval of disbursements.
- g. A Council member or the Deputy Finance Officer should agree the financial statements generated in excel by the Finance Officer to the financial statements generated directly from the accounting software.
- h. We recommend cutting off transactions as of the end of each month, in order to ensure that the general ledger balances for the Liquor fund and corresponding financial statements are accurate.

Response/Corrective Action Plan: The City attempts to maintain proper segregation of duties with the staff available. The Finance Officer, Debbie Brown, is responsible for this corrective action plan.

**2007-4 FINDING: Liquor Fund Revenue:**

Condition: We noted the following findings pertaining to Liquor Fund:

- a. For 16 of the 18 days selected for testing for liquor revenue in 2007, we noted variances in the aggregating amount of \$766.20 between the register tape of off-sale liquor totals and the total off-sale liquor per the daily summary sheet (the amount deposited). These errors appear to be the result of movement of inventory from the liquor store to the bar, but lack appropriate supporting documentation to support the variance. There were no errors noted during the 5 days tested in 2006.

**CITY OF FAITH**

**AUDITOR'S COMMENTS AND CLOSING CONFERENCE (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

**B. Findings – Financial Statement Audit (Continued)**

**SIGNIFICANT DEFICIENCIES – MATERIAL WEAKNESSES (Concluded)**

2007-4 FINDING: Liquor Fund Revenue: (Continued)

Condition: (Continued)

- b. The Bar Manager has access to the video lottery register, reconciles the lottery payouts to the cash register, receives the lottery bank statement unopened, completes the lottery bank reconciliation, and reconciles the actual lottery payouts to the payouts per the lottery vending company's figures; no review is performed on any of these processes. The Bar Manager and bar employees are authorized check signers, the bar maintains a stack of signed checks on hand for lottery payouts, and the Bar Manager receives and opens the liquor bank statement and reconciles the bank account. The Bar Manager also orders, receives, and reconciles the bar inventory. Although the Bar Manager performs quarterly spot-check inventory counts, the count documentation is not retained nor are these counts reviewed.
- c. Margin analysis on the bar inventory and sales is only completed at the end of the year. During 2006, we noted a 15% decrease in the direct gross margin of the beer and liquor sales (excluding operating agreement income and expense) which could not be explained by the finance office.

Criteria and Effect: The aforementioned situation could result in asset misappropriation or a misstatement of the financial statements that would not be detected by the City in a timely manner.

Recommendation:

- a. We recommend tracking the movement of liquor from the liquor store to the bar and reviewing this activity for reasonableness.
- b. The Bar Manager should not receive the unopened lottery bank statements. As described above, all bank statements should be received by a City Council member or the Mayor. Second, lottery payouts and bank reconciliations should be prepared (or at a minimum reviewed) by the Finance Officer or Deputy Finance Officer on a monthly basis. Next, signed checks should not be maintained on hand, as it creates the potential for the misappropriation of cash; however, this risk could be mitigated by the review of the bank statement and the lottery payout reconciliation by the Finance Officer or Deputy Finance Officer. The Bar Manager's orders of inventory should be reviewed by the Finance Officer, with the Finance Officer maintaining a copy of the order to be placed. The order should be received by someone other than the Bar Manager. If the Bar Manager will be entering the inventory information into the computer, the Finance Officer should review it. Furthermore, reconciliations of the bar inventory should also be reviewed on a monthly basis by the Finance Officer or Deputy Finance Officer. Finally, quarterly inventory count documentation should be retained and reviewed on a quarterly basis by the Finance Officer or Deputy Finance Officer.
- c. Margin analysis (direct cost of sales as a percentage of sales) should be performed periodically throughout the year, such as once per quarter or once per month by the Finance Officer. Any variances should be investigated timely.

Response/Corrective Action Plan: The City will evaluate the risk associated with this condition and determine if any correcting or mitigating procedures are feasible for implementation. The Finance Officer, Debbie Brown, is responsible for this corrective action plan.



**CITY OF FAITH**

**AUDITOR'S COMMENTS AND CLOSING CONFERENCE (CONCLUDED)  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

**B. Findings – Financial Statement Audit (Concluded)**

**SIGNIFICANT DEFICIENCIES – NOT MATERIAL WEAKNESSES**

**2007-5 FINDING: Utility Billing Errors**

Condition: We noted the following errors during our review of the utility billings:

- a. A manual correction of a meter misreading miscalculated the total electric usage and resulted in an incorrect (under) billing in the amount of \$1,496.
- b. A penalty assessed on a telephone billing was calculated incorrectly by the City's billing software resulting in an incorrect under billing of \$0.51.
- c. An ambulance patient was billed an incorrect amount based on their services received in the amount of \$50.

Criteria and Effect: Incorrect utility billings could result in a potential misstatement to the City's financial statements and possible unrecorded liabilities.

Recommendation: We recommend the following:

- a. Manual corrections to billings should be reviewed by someone other than the preparer prior to issuing the utility billing statements to the customers.
- b. Periodically, a sample of telephone billings should be manually recalculated to verify that the utility billing software is billing the correct amounts.
- c. The Ambulance billing prepared by the contract billers should be reconciled by the finance office to the ambulance report indicating the services that were provided to the customer.

Response/Corrective Action Plan: The City will evaluate the risk associated with this condition and determine which procedures are feasible for implementation. The Finance Officer, Debbie Brown, is responsible for this corrective action plan.

**07-6 Finding: Budgetary Overdraft**

Condition: The City had \$5,045 and \$4,597 of budgetary overdrafts in various subfunctions of the General Fund in violation of South Dakota Codified Law 9-21-9 during the years ended December 31, 2007 and 2006, respectively.

Recommendation: The City in the future should complete supplemental appropriations for unbudgeted expenditures.

Response/Corrective Action Plan: The City makes every effort to supplement the budget when needed and will continue to be more diligent in this process. The Finance Officer, Debbie Brown, is responsible for this corrective action plan.